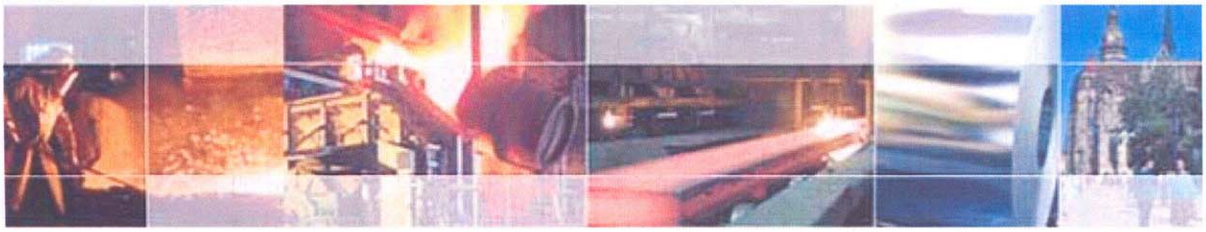
U. S. Steel Košice, s.r.o.
A Subsidiary of United States Steel

VÝROČNÁ SPRÁVA
k individuálnej účtovnej závierke za rok 2006 zostavenej podľa Medzinárodných štandardov pre finančné výkazníctvo (IFRS) platných v EU



ANNUAL REPORT
to the Separate Financial Statements for 2006 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

William C. King

Viceprezident pre financovanie
Chief Financial Officer

Košice, 21. júna 2007
Košice, 21 June 2007

U. S. Steel Košice, s.r.o.
A Subsidiary of United States Steel

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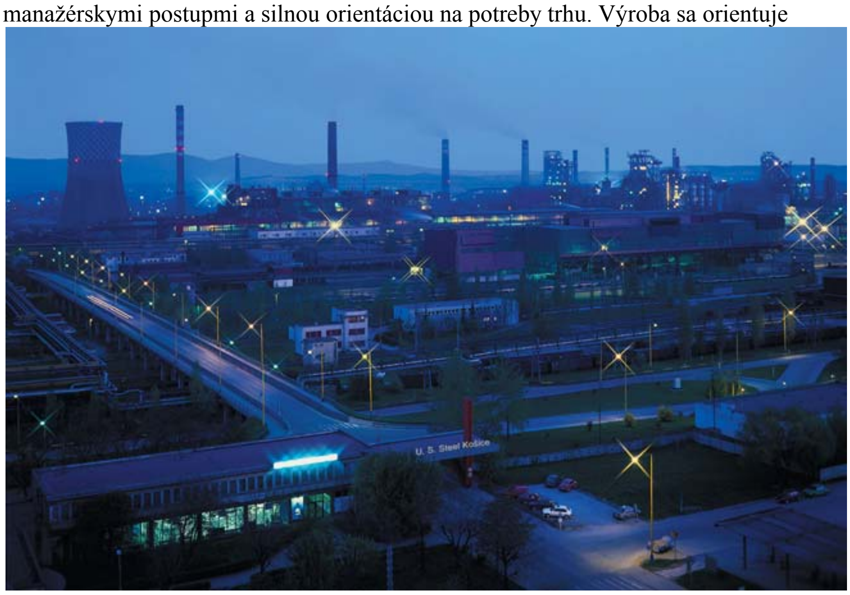
PROFIL SPOLOČNOSTI

U. S. Steel Košice, s.r.o. (ďalej len „Spoločnosť“ alebo „USSK“) patrí medzi najväčších výrobcov plochých valcovaných výrobkov v strednej Európe. Základné informácie o Spoločnosti sú v nasledujúcej tabuľke:

Obchodné meno	U. S. Steel Košice, s.r.o.
Sídlo	Košice
Právna forma	Spoločnosť s ručením obmedzeným
Dátum založenia	7. júna 2000
Dátum vzniku	20. júna 2000
IČO	36 199 222
Obchodný register	Obchodný register Okresného súdu Košice I

Železiarne v Košiciach boli postavené v 60. rokoch 20. storočia. Postupne sa zaradili medzi významných stredoeurópskych výrobcov, presadili sa na trhu s oceľou, stali sa členmi medzinárodných profesionálnych asociácií. Pôvodné východoslovenské železiarne sa od roku 2000 stali súčasťou nadnárodnej spoločnosti United States Steel Corporation, s ktorou mali železiarne od roku 1998 vytvorený spoločný joint-venture podnik na výrobu oceľových obalových materiálov. USS Corporation má na americkom kontinente viac ako storočnú tradíciu a okrem Slovenska prevádzkuje aj zariadenia v Srbsku.

V súčasnosti je košický hutnícky kombinát moderný podnik, v ktorom sa spájajú bohaté technické zručnosti a znalosti slovenských hutníkov so západnými manažérskymi postupmi a silnou orientáciou na potreby trhu. Výroba sa orientuje najmä na produkty s vyššou pridanou hodnotou pre automobilový, obalový, elektrotechnický, spotrebný a stavebný priemysel.



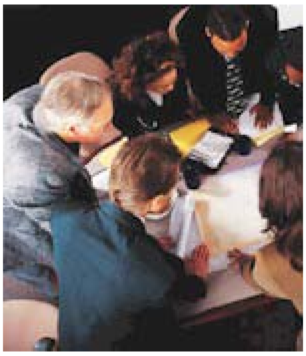
COMPANY'S PROFILE

U. S. Steel Košice, s.r.o. (hereafter "Company" or "USSK") ranks among the largest producers of flat-rolled products in Central Europe. The general information about the Company is in the following table:

Business Name	*U. S. Steel Košice, s.r.o.*
Location	*Košice*
Legal entity	*Limited liability company*
Date of establishment	*7 June 2000*
Date of incorporation	*20 June 2000*
IČO	*36 199 222*
Business Register	*Business Register of District Court Košice I*

The Košice Steelworks were built in the 1960's. The works gradually rose to rank among the significant producers in Central Europe, the Company proved itself on the steel market, and became a member of international professional associations. In the year 2000, the original East Slovakian Steelworks became a part of the multinational company United States Steel Corporation, with whom the steelworks had formed a joint-venture company to produce steel packaging materials in 1998. USS Corporation has more than a hundred years tradition on the American continent, and besides Slovakia it has also operating facilities in Serbia.

Currently, the metallurgical plant in Košice is a modern company merging the vast technical skills and experience of Slovak steelmakers with western managerial procedures and strong market orientation. The operations are focused mostly on products with higher added value for automotive, packaging, electro-technical, consumer and construction industries.



Konatelia Spoločnosti

Konateľmi Spoločnosti k 31. decembru 2006 boli:

David Harman Lohr	Prezident
William Clyde King	Viceprezident pre financovanie
Richard Eugene Veitch	Viceprezident pre výrobu
John Baird Peters	Viceprezident pre predaj a marketing
Ing. Anton Jura	Viceprezident pre strategické implementácie
RNDr. Miroslav Kiraľvarga	Viceprezident pre ľudské zdroje
Kenneth Ralph Pepperney	Generálny právny zástupca
Andrew Stewart Armstrong	Viceprezident pre informačné technológie

V roku 2006 došlo vo funkcii konateľov k nasledovným zmenám:

Scott Christopher Pape	- zánik funkcie k 1.6.2006
Richard Eugene Veitch	- vznik funkcie k 1.6.2006
Jeffrey Vincent Greenwell	- zánik funkcie k 1.12.2006
James Francis Connor	- zánik funkcie k 1.12.2006
William Clyde King	- vznik funkcie k 1.12.2006

V roku 2007 do dátumu zostavenia účtovnej závierky došlo vo funkcii konateľov k nasledovným zmenám:

Kenneth Ralph Pepperney	- zánik funkcie k 1.1.2007
John Frederick Wilson	- vznik funkcie k 1.1.2007
Patrick James Mullarkey	- vznik funkcie k 1.1.2007
Ing. Martin Pitorák	- vznik funkcie k 1.5.2007

Company Executives

The Executives as of 31 December 2006 were:

David Harman Lohr	*President*
William Clyde King	*Chief Financial Officer*
Richard Eugene Veitch	*Vice-president for Operations*
John Baird Peters	*Vice-president for Sales and Marketing*
Ing. Anton Jura	*Vice-president for Strategic Implementations*
RNDr. Miroslav Kiraľvarga	*Vice-president for Human Resources*
Kenneth Ralph Pepperney	*General Counsel*
Andrew Stewart Armstrong	*Vice-president for Information Technologies*

In 2006, the following changes were made in Executives positions:

Scott Christopher Pape	*- discharged on 1 Jun 2006*
Richard Eugene Veitch	*- appointed on 1 Jun 2006*
Jeffrey Vincent Greenwell	*- discharged on 1 Dec 2006*
James Francis Connor	*- discharged on 1 Dec 2006*
William Clyde King	*- appointed on 1 Dec 2006*

In 2007 by the date of the accompanying financial statements, the following changes were made in Executives positions:

Kenneth Ralph Pepperney	*- discharged on 1 Jan 2007*
John Frederick Wilson	*- appointed on 1 Jan 2007*
Patrick James Mullarkey	*- appointed on 1 Jan 2007*
Ing. Martin Pitorák	*- appointed on 1 May 2007*

<u>Investície v dcérskych spoločnostiach</u>

K 31. decembru 2006 pôsobilo na Slovensku desať dcérskych spoločností, ktoré poskytujú služby hlavne pre materskú Spoločnosť. Ďalších šesť dcérskych spoločností a jedna pridružená spoločnosť, ktoré sa zaoberajú hlavne predajom výrobkov Spoločnosti na zahraničných trhoch, pôsobia v iných európskych krajinách.

K 31. decembru 2006 Spoločnosť vlastnila podiely v dvoch spoločnostiach klasifikovaných ako k dispozícii na predaj: STABILITA, d.d.s., a.s. (18,59%) a Hutníctví železa, a.s. (11,4%).

V roku 2006 naďalej pôsobilo obchodné zastupiteľstvo v Ruskej federácii so sídlom v Moskve, ktoré Spoločnosť vytvorila v roku 2003.

Zoznam a vybrané hospodárske výsledky týchto spoločností sú uvedené v poznámke 8 Poznámok k priloženej individuálnej účtovnej závierke.

http://www.usske.sk/units/subs-s.htm

<u>Investments in Subsidiaries</u>

Ten subsidiaries that mainly provide services to the parent company were operating in Slovakia as of 31 December 2006. Additional six subsidiaries and one associated company that are mainly focused on trading with the Company products on the foreign markets are located in other European countries.

As of 31 December 2006 the Company owned shares in two equity investment companies available for sale: STABILITA, d.d.s., a.s. (18.59%) and Hutníctví železa, a.s. (11.4%).

The sales agency established in 2003 in Moscow, Russia continued to operate in 2006.

The list of and selected financial information for these companies are disclosed in Note 8 of the Notes to the accompanying separate financial statements.

http://www.usske.sk/units/subs-e.htm

VÍZIA, CIEĽ A HODNOTY SPOLOČNOSTI

Naša VÍZIA je byť ziskovou oceliarskou spoločnosťou, ktorá poskytuje svojim akcionárom primerané výnosy a vykazuje dlhodobý rast a úspech; naším CIEĽOM je zaujať miesto na vrchole železiarenského a oceliarskeho priemyslu.

Kľúčom k trvalému úspechu je **šesť hlavných princípov podnikania**, ktoré sa uplatňujú vo výrobe, v obchodovaní, v komunikácii so zamestnancami i partnermi a prostredníctvom ktorých sa spoločensky zodpovedný postoj firmy denno-denne aplikuje v praxi:

• Bezpečnosť a ochrana zdravia zamestnancov
• Životné prostredie
• Kvalita výrobkov
• Zákaznícky servis
• Náklady na výrobu
• Produktivita výroby

SAFETY 1st
www.safety1.sk

Bezpečnosť

Bezpečnosť a ochrana zdravia pri práci zamestnancov, ale aj dodávateľov alebo iných partnerov pracujúcich v areáli podniku je v USSK prioritou č. 1. Nosenie certifikovaných osobných ochranných prostriedkov a dodržiavanie kardinálnych bezpečnostných pravidiel sa stáva postupne nielen nevyhnutnosťou, ale i samozrejmosťou pre zamestnancov. Prostredníctvom tréningového programu H.E.L.P. (Hazard Elimination and Loss Prevention) Spoločnosť presviedča zamestnancov, že bezpečné konanie je ich vlastnou potrebou a zodpovednosťou. Manažéri a zamestnanci spoločne odhaľujú výrobné postupy a miesta, ktoré by mohli byť potenciálnym zdrojom rizika a ohrozenia zdravia zamestnancov.

Vďaka permanentne vynakladanému úsiliu bol počet úrazov znížený o 60 % oproti stavu pred prevzatím košických železiarní v roku 2000. Spoločnosť DuPont Safety Resources, svetový líder v oblasti bezpečnosti a ochrany zdravia pri práci udelila spoločnosti U. S. Steel Košice, s.r.o. cenu za projekt Manažérstvo rizík.

VISION, OBJECTIVE AND VALUES OF THE COMPANY

Our VISION is to be a profitable metallurgical company that offers adequate profits to its shareholders and shows long-term growth and success; our OBJECTIVE is to assume position at the top of the iron and steel making industry.

*The key to the permanent success is **six main business principles** that are applied in production, commerce, communication with employees and partners, and through which the socially responsible approach of the Company is applied in day-to-day practice:*

• Safety
• Environmental compliance
• Quality of the products
• Customer service
• Production costs
• Productivity

Safety

Occupational Safety and Health of the employees and suppliers or other partners working on the company's premises is the no.1 priority in USSK. Wearing certified personal protective equipment and complying with cardinal safety regulations is gradually becoming not just a necessity, but also a matter of course for the employees. Through the H.E.L.P. (Hazard Elimination and Loss Prevention) training program, the Company has been convincing its employees that safe conduct is their individual need and responsibility. Managers and employees jointly discover operational procedures and locations that are a potential source of risks and hazards to the health of employees.

Thanks to continuous effort, the number of injuries has decreased by 60%, as compared to the status before acquisition of the Košice Steelworks in 2000. U. S. Steel Košice, s.r.o. was awarded for the project Risk Management by DuPont Safety Resources, the world leader in the safety area.

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<u>VPLYV ČINNOSTI SPOLOČNOSTI NA ZAMESTNANOSŤ</u>

Zamestnanecká politika od prevzatia Spoločnosti americkým majiteľom prechádza transformáciou tak, aby bola Spoločnosť aj v tejto oblasti konkurencieschopná v porovnaní s ostatnými hutníckymi spoločnosťami vo svete a zároveň naplnila dohodu s vládou SR, v ktorej sa zaviazala, že zamestnanosť sa bude meniť len na základe prirodzeného úbytku. V roku 2006 pracovalo v USSK v priemere 13 558 zamestnancov (2005: 14 112, 2004: 14 385). Spoločnosť je najväčším zamestnávateľom v regióne východného Slovenska a mesta Košice.

Súčasťou firemnej kultúry je aj oceňovanie zamestnancov, ktorí svojou kvalitnou prácou prispievajú k dosahovaniu vynikajúcich výsledkov v rôznych oblastiach. Patria sem napr. pravidelné obedy prezidenta spoločnosti s najlepšími pracovníkmi v oblasti bezpečnosti práce, kvality či znižovania nákladov, rôzne podujatia, medzi nimi letné a zimné športové hry, reprezentačné firemné plesy i recipročné obsadzovanie postov a výmena zamestnancov medzi slovenskými, americkými a srbskými prevádzkami. Firma má prepracované programy sociálnej a zdravotnej starostlivosti o zamestnancov a pravidelne komunikuje pri ich dolaďovaní s predstaviteľmi troch odborových organizácií (OZ METALURG, OZ Kovo a OZ Nezávislé kresťanské odbory Slovenska).

Novým trendom v oblasti ľudských zdrojov je rôznorodosť (diversity) – t. j. vyhľadávanie a zamestnávanie ľudí prichádzajúcich z rôzneho prostredia, s rozmanitým vzdelaním, skúsenosťami, nápadmi a talentom. Budúci úspech USSK závisí aj od toho, ako bude firma schopná a pripravená zaujať, najať, vyškoliť a udržať si novú pracovnú silu a súčasne školiť k pochopeniu a prijatiu meniaceho sa charakteru podnikania už existujúcich zamestnancov.

Spoločnosť si je vedomá, že stanovené vysoké ciele sa dajú splniť iba vďaka svojim zamestnancom. USSK dáva zamestnancom sociálne a ekonomické istoty, dobré zárobky i podmienky pre zabezpečenie všestranného rozvoja. Za základ dôvery potrebnej pre dlhodobý úspech Spoločnosti považuje princípy Etického kódexu, ktorý dostane každý zamestnanec pri podpise pracovnej zmluvy. Etický kódex definuje prijateľné normy správania sa zamestnancov v oblastiach ako sú diskriminácia, sexuálne obťažovanie, podvodné postupy a ochrana hospodárskej súťaže, konflikt záujmov i politická angažovanosť. USSK sa stala lídrom v presadzovaní obchodnej etiky a boja proti korupcii.

<u>IMPACT OF THE COMPANY TO THE EMPLOYMENT</u>

Since the Company was acquired by the American owner, the Employment Policy has undergone a transformation in order to assure competitiveness of the Company in comparison with other metallurgical companies in the world and to fulfill its commitment to the Slovak Government to reduce the number of employees based on natural attrition. In 2006, there were 13,558 employees (on average) working in USSK (2005: 14,112, 2004: 14,385). The Company is the largest employer in the region of Eastern Slovakia and Košice.

The rewarding of employees who participate in the achievement of excellent results in various areas through their quality work, is also a part of the Company's culture. This includes regular lunch meetings of the Company's President with employees achieving the best results in occupational safety, quality or cost decreasing areas, various events including summer and winter games, annual balls of the Company, as well as reciprocal filling of positions and exchange of employees between Slovak, American and Serbian operations. The Company has sophisticated social and health care programs for employees and regularly discusses their modifications with the representatives of three union organizations (Metalurg, Kovo, and the Independent Christian Trades Union of Slovakia).

A new trend in the area of Human Resources is diversity – searching for and hiring people coming from different environments, with various kinds of education, experience, ideas and talent. Future USSK success also depends on how prepared the Company will be to attract, hire, train and retain new workforce and, at the same time, train the existing employees to understand and accept the changing character of business conduct.

The Company realizes that defined demanding objectives can only be fulfilled thanks to its employees. USSK gives its employees social and economic security, good salaries, and conditions to assure comprehensive personal development. The principles of the Ethical Code that all employees receive when signing their employment contract are considered to be the foundation of the trust necessary for the long-term success of the Company. The Ethical Code defines the acceptable standards of employee conduct in areas like discrimination, sexual harassment, fraudulent practices and protection of the economic competition, conflict of interests, and political involvement. USSK has become a leader in enforcing business ethics and corruption control.

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VPLYV ČINNOSTI SPOLOČNOSTI NA ŽIVOTNÉ PROSTREDIE

Charakter výroby v hutníckom kombináte kdekoľvek na svete ovplyvňuje životné prostredie, a to najmä ovzdušie, vodné hospodárstvo a tvorbu odpadov. Ochrana životného prostredia sa odvíja od platných národných a medzinárodných noriem a zákonov, ale vo veľkej miere závisí aj od aktivít a zodpovednosti samotných firiem.

Ochrana životného prostredia je v USSK jedným zo základných strategických cieľov. V reálnom živote sa to prejavuje v systémovom prístupe k ochrane životného prostredia. Koncom roka 2003 bol Spoločnosti udelený spoločný certifikát EMS organizáciou RWTÜV, potvrdzujúci uplatnenie systému environmentálneho manažérstva podľa medzinárodnej normy ISO 14 001. Tento certifikát má platnosť v rozsahu piatich finalizujúcich divíznych závodov, systém environmentálneho manažérstva je však implementovaný vo všetkých trinástich divíznych závodoch spoločnosti.

Od roku 2000 firma investovala do desiatok ekologických projektov viac než 200 mil. USD, z toho v roku 2004-2005 najmä do nových výkonných systémov odprášenia v divíznych závodoch Koksovňa, Vysoké pece a Oceliareň, výsledkom čoho bolo zníženie tuhých znečisťujúcich látok o viac než 76 % na tonu vyrobenej ocele.

Okrem priamych investícií environmentálny tréningový program CITE (Continuous Improvement to the Environment) reprezentuje aktívny prístup manažmentu k zvýšeniu environmentálneho povedomia zamestnancov. Navyše, rozvoj pozitívneho postoja k skvalitňovaniu životného prostredia medzi študentmi základných, stredných a vysokých škôl podporuje USSK formou viacerých ekologických projektov (Kde a ako budeme bývať, Čo sme doteraz nevedeli, EKO, Ekotopfilm). Intenzívne spolupracuje v danej oblasti aj s mimovládnymi organizáciami a obcami v regióne.

Spoločnosť priebežne monitoruje a pravidelne informuje verejnosť o množstvách emisií a kvalite odpadových vôd v týždenníku Oceľ východu i na svojej webovej stránke www.usske.sk. Ďalšie informácie týkajúce životného prostredia a z toho vyplývajúcich záväzkov Spoločnosti sú uvedené v poznámke 30 Poznámok k priloženej individuálnej účtovnej závierke.

IMPACT OF THE COMPANY TO THE ENVIRONMENT

The nature of metallurgical operations anywhere in the world has impact on the environment, especially on the atmosphere, water management and waste production. Environmental protection is based on valid national and international standards and laws, but to a significant degree depends also on the activities and responsibilities of companies themselves.

Environmental protection is one of the basic business drivers in USSK. In real life, this is demonstrated by a systematic approach to the environmental protection. At the end of 2003, the Company received a corporate EMS certificate from the RWTÜV audit organization, confirming the implementation of an environmental management system in accordance with the international standard ISO 14 001. This certificate covers 5 finishing plants, although the environmental management system has been implemented in all thirteen of the Company's divisions.

Since 2000, the Company has invested more than USD 200 million into dozens of ecological projects, including the new highly efficient de-dusting systems at the Cokery, Blast Furnaces and Steel Plants within the period of 2004-2005. This has resulted in decrease of total solid particulates by 76% per ton of steel produced.

Besides direct investment, the CITE (Continuous Improvement to the Environment) training program represents an active approach by the management to increasing employees' environmental awareness. Moreover, USSK supports development of positive attitudes toward environmental protection and improvement among elementary, secondary school and university students through several ecological projects (Where and how we will live, What we never knew until now, EKO, Ekotopfilm). USSK cooperates intensively in this area with non-governmental organizations and local villages.

The Company continuously monitors emissions and regularly informs the public about emission volumes and waste water quality in the weekly newspaper Oceľ východu and on its web site www.usske.sk. Other environmental information and related liabilities are disclosed in Note 30 of the Notes to the accompanying separate financial statements.

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VPLYV ČINNOSTI SPOLOČNOSTI NA REGIÓN

V novembri 2000 USSK založila v Košiciach Centrum ekonomického rozvoja (EDC) ako súčasť svojho záväzku vláde s cieľom podporiť ekonomický rast v regióne a vytvoriť nové pracovné miesta. V úzkej spolupráci s národnými a regionálnymi úradmi, veľvyslanectvami, obchodnými organizáciami a inými spoločnosťami sponzoruje investičné konferencie, je hostiteľom obchodných návštev a pomáha novým spoločnostiam pri etablovaní sa v tomto regióne. Do konca roka 2006 EDC úspešne pomohlo pritiahnuť 22 zahraničných investorov.

Od roku 2002 sa časť filantropických aktivít Spoločnosti realizuje prostredníctvom Nadácie U. S. Steel Košice. Dominuje podpora zdravotníctva, vzdelávania mládeže, telovýchovy a športu, aktivít pre dôchodcov a iné sociálne, humanitárne a charitatívne aktivity.

Spoločnosť sa aktívne podieľa na charitatívnych akciách, na podpore kultúry, školstva, zdravotníctva, športu a pod. Projekty a podujatia nielen finančne podporuje, ale častokrát aktívne participuje na ich realizácii. Mnohé kultúrne a verejné podujatia pre obyvateľov Košíc sa postupne stali tradíciou (Deň mesta Košice, Košické Vianoce).

So svojím presvedčením, že ochrana života a zdravia je dôležitá ako pri hutníckej výrobe, tak pri akejkoľvek ľudskej činnosti, USSK pripravila pre študentov a širokú verejnosť program Profesionáli konajú bezpečne, v rámci ktorého rôznymi formami upriamuje pozornosť mladých ľudí, ich rodičov a pedagógov na otázky bezpečného konania a správania sa.

IMPACT OF THE COMPANY TO THE REGION

In November 2000, as part of its commitment to the Slovak Government, USSK established the Economic Development Center (EDC) in Košice, with the aim of promoting economic growth and creating new jobs in the region. In close cooperation with national and regional authorities, embassies, business organizations, and other companies, the EDC sponsors investment conferences, hosts business visits, and helps new companies establish operations in the region. By the end of 2006, the EDC helped to successfully attract 22 foreign investors.

Since 2002 part of the Company's philanthropic activities has been organized through the U. S. Steel Košice Foundation. The majority of its support is for health, youth education, fitness and sports, activities for the retirees, and other social, humanitarian and charity activities.

The Company actively participates in charity events, supports culture, education, health and sports. Projects and events are not only supported financially, but many times the Company actively participates in their realization. Many cultural and public events for Košice citizens have become a tradition (Košice City Days, Christmas in Košice).

Convinced that the protection of life and health is as important for any human activity as it is for metallurgical production, USSK has developed the program "Professionals Work Safely" for students and the general public, through which it has been drawing the attention of young people, their parents and educators to the issues of safe conduct and behavior.

VYBRANÉ FINANČNÉ INFORMÁCIE

Súvaha

Vybrané položky súvahy (v mil. EUR) za posledné tri roky sú:

	31.12.2006	31.12.2005	31.12.2004
Dlhodobý hmotný majetok	895	803	683
Dlhodobý nehmotný majetok	77	214	7
Ostatný neobežný majetok	120	167	204
Úvery spriazneným stranám	-	330	316
Zásoby	291	245	231
Pohľadávky	512	440	388
Ostatné aktíva	100	42	99
Aktíva celkom	**1 995**	**2 241**	**1 928**

K 31. decembru 2006 predstavovali obežné aktíva Spoločnosti 903 mil. EUR (k 31. 12. 2005: 955 mil. EUR; k 31. 12. 2004: 1 012 mil. EUR). Pokles v celkovej hodnote majetku v roku 2006 spôsobilo najmä precenenie emisných kvót na ich reálnu hodnotu v dlhodobom nehmotnom majetku Spoločnosti (Poznámka 7) a splatenie úverov poskytnutých spriazneným stranám (Poznámka 11).

	31.12.2006	31.12.2005	31.12.2004
Vlastné imanie	1 520	1 492	1 511
Krátkodobé záväzky	328	300	267
Bankové úvery	-	195	98
Ostatné pasíva	147	254	52
Pasíva celkom	**1 995**	**2 241**	**1 928**

V roku 2006, Spoločnosť splatila krátkodobý syndikovaný úver vo výške 195 mil. EUR od ING Bank N.V. (Poznámka 18).

Výkaz ziskov a strát

Vybrané položky výkazu ziskov a strát (v mil. EUR) za posledné dva roky sú:

	2006	2005
Tržby a ostatné výnosy	2 675	2 374
Výsledok hospodárenia z bežnej činnosti	566	480
Výsledok hospodárenia za účtovné obdobie	479	429

Za účtovné obdobie roku 2006 Spoločnosť dosiahla čistý zisk 479 mil. EUR (2005: 429 mil. EUR). Na celkovom takmer 12 % náraste výsledku hospodárenia za rok 2006 sa pozitívne podieľal najmä vplyv objemu predaja výrobkov a nižších cien surovín, ktorý bol kompenzovaný negatívnym dopadom vyšších nákladov na energie.

SELECTED FINANCIAL INFORMATION

Balance Sheet

Selected balance sheet items (in EUR million) for the last three years are:

	31 Dec 06	*31 Dec 05*	*31 Dec 04*
Property, Plant and Equipment	*895*	*803*	*683*
Intangible Assets	*77*	*214*	*7*
Other Non-Current Assets	*120*	*167*	*204*
Loans to Related Parties	*-*	*330*	*316*
Inventories	*291*	*245*	*231*
Accounts Receivable	*512*	*440*	*388*
Other Assets	*100*	*42*	*99*
Total Assets	***1,995***	***2,241***	***1,928***

Current assets of the Company were EUR 903 million as of 31 December 2006 (31 Dec 2005: EUR 955 million; 31 Dec 2004: EUR 1,012 million). Total assets decreased in 2006 mainly due to revaluation of emission allowances to their fair value in intangible assets of the Company (Note 7) and repayment of the loans provided to related parties (Note 11).

	31 Dec 06	*31 Dec 05*	*31 Dec 04*
Equity	*1,520*	*1,492*	*1,511*
Accounts Payable	*328*	*300*	*267*
Bank Loans	*-*	*195*	*98*
Other Liabilities	*147*	*254*	*52*
Total Liabilities	***1,995***	***2,241***	***1,928***

In 2006, the Company repaid a short-term syndicated loan totaling EUR 195 million from ING Bank N.V. (Note 18).

Income Statement

Selected income statement items (in EUR million) for the last two years are:

	2006	*2005*
Revenues and Other Income	*2,675*	*2,374*
Operating Profit	*566*	*480*
Profit for the year	*479*	*429*

The 2006 net profit of the Company was EUR 479 million (2005: EUR 429 million). The total increase in profit for the year of approximately 12 % was favorably affected by increased selling volume and lower raw material prices that was partially offset by the adverse impact of higher energy costs.

U. S. Steel Košice, s.r.o.
A Subsidiary of United States Steel

NÁVRH NA ROZDELENIE HOSPODÁRSKEHO VÝSLEDKU ZA ROK 2006

	v EUR
Zisk za rok 2006	**479 454 000**
Povinný prídel do rezervného fondu	543 200
Zisk za rok 2006 na ďalšiu distribúciu	**478 910 800**
Nerozdelený zisk minulých rokov	392 228 000
Nerozdelený zisk spolu pred výplatou podielu na zisku	**871 138 800**
Podiel na zisku pre U. S. Steel Global Holdings I B.V	525 000 000
Nerozdelený zisk spolu po výplate podielu na zisku	**346 138 800**

PROPOSAL OF 2006 PROFIT DISTRIBUTION

	In EUR
Profit for 2006	**479,454,000**
Compulsory contribution to reserve fund	543,200
Profit for 2006 available for additional distribution	**478,910,800**
Undistributed profit from previous years	392,228,000
Total undistributed profit before dividends	**871,138,800**
Dividends for U. S. Steel Global Holdings I B.V	525,000,000
Total undistributed profit after dividends	**346,138,800**

VYBRANÉ EKONOMICKÉ INFORMACIE A VÝZNAMNÉ UDALOSTI V ROKU 2006

Kvalita

Uplatňovanie programov zameraných na kvalitu produkcie vytvára predpoklady pre zlepšovanie ekonomickej výkonnosti a zvyšovanie schopnosti konkurovať na domácom a medzinárodných trhoch. Medzinárodnú certifikáciu systému manažérstva kvality (QMS) podľa ISO 9001 získal v roku 1992 DZ Teplá valcovňa ako prvý závod v strednej a východnej Európe. USSK je certifikovaná podľa medzinárodných štandardov ISO 9001:2000 a ISO/TS 16949 pre automobilový priemysel. Implementovaný a certifikovaný je tiež systém environmentálneho manažérstva podľa požiadaviek ISO 14001:2004 a v procese implementácie je systém manažérstva bezpečnosti a ochrany zdravia pri práci. V roku 2002 bola spoločnosť ocenená cenou Slovenskej republiky za kvalitu v kategórii veľká výrobná spoločnosť. Pre oceľové doskové radiátory KORAD bol v roku 2003 udelený Certifikát ochrannej značky kvality a Zlatej medaily Slovak Gold. V máji 2006, audítori RWTUV Bratislava uskutočnili prvý kontrolný audit podľa ISO 9001:2000 (odporučili potvrdiť jeho platnosť na ďalšie obdobie) a ISO/TS 16949 (odporučili vydať Spoločnosti certifikát, ktorý požadujú výrobcovia v automobilovom priemysle).

Výskum a vývoj

V oblasti výskumu a vývoja boli v roku 2006 nainštalované skúšobné linky, ktoré umožnia simulovať skutočné výrobné podmienky v prevádzkach Teplej a Studenej valcovne a tak optimalizovať žiadané vlastnosti produkcie. Testovacie kapacity výskumu a vývoja rozšírila v apríli 2006 koksárenská pec s pohyblivou stenou, ktorá je súčasťou Globálneho centra pre testovanie uhlia a koksu. V júli 2006 začalo svoju činnosť Center of Excellence pre elektrické ocele, ktoré umožňuje modelovať výrobu na všetkých kontinuálnych žíhacích linkách. Pracovisko poskytuje služby aj americkým závodom USS.

SELECTED ECONOMIC INFORMATION AND SIGNIFICANT EVENTS IN 2006

Quality

Implementation of the programs focused on production quality creates conditions to increase economical efficiency and the ability to compete in domestic and foreign markets. In 1992, the Company was the first facility in Central and Eastern Europe that received international Quality Management System (QMS) certification in accordance with ISO 9001 for the Hot Rolling Mill. USSK is certified in accordance with the international ISO 9001:2000 and ISO/TS 16949 standards for the automotive industry. An environmental management system in line with the requirements of ISO 14001:2004 has been implemented as well, and an occupational health and safety management system is also being implemented. In 2002, USSK was awarded the Slovak National Award for Quality in the category of large manufacturing companies. In 2003, Korad steel panel radiators were awarded the Quality Trademark Certificate and the Slovak Gold Medal. In May 2006, auditors from RWTUV Bratislava performed first control audit according to ISO 9000:2000 (with a recommendation to confirm its validity for the next period) and ISO/TS 16949 (with a recommendation to issue a certificate for the Company, which is required by manufacturers in the automotive industry).

Research and Development

In the area of research and development, test facilities were installed in 2006 that allow simulation of real production conditions in the Hot Roll Mill and Cold Roll Mill and so optimize desired production quality. Coke furnace with the moving wall, that is a part of the Global Centre for Coal and Coke Testing, expanded testing capacity of research and development in April 2006. Centre of Excellence for Electric Steel began its activity in July 2006. The Centre allows modeling of production on all continuous annealing facilities and provides service also to USS plants in the USA.

U. S. Steel Košice, s.r.o.
A Subsidiary of United States Steel

Náklady

Znižovanie nákladov vo výrobe je rozhodujúce pre úspech na konkurenčnom trhu. Aj keď sa ceny surovín extrémne zvýšili, spoločnosti sa podarilo znížiť výrobné náklady cez efektívne riadiace systémy na všetkých úrovniach a pomocou procesu kontinuálneho zlepšovania. Množstvo projektov na úsporu nákladov, predložené zamestnancami a manažérmi USSK, už boli realizované. Medzi najvýznamnejšie patria úspory v primárnej metalurgii, vo výrobe energie a v finalizujúcich prevádzkach.

Výrobná kapacita

Ročná kapacita produkcie surového železa predstavuje 4,3 mil. ton. V roku 2006 Spoločnosť vyrobila 4,7 mil. ton ocele v brámach (2005: 4,1 mil. ton, 2004: 4,1 mil. ton).

Trhové podmienky

Spoločnosť pôsobí primárne na trhoch strednej a západnej Európy a podlieha trhovým podmienkam v týchto oblastiach. Niektoré faktory, ktoré by mohli ovplyvniť trhové podmienky, náklady, dodávky a ceny produktov spoločnosti predstavujú globálny dopyt po produktoch, trhové ceny výrobkov, ceny a dostupnosť vstupných surovín a energií, zmeny v legislatíve, fluktuácia kurzov mien a rôzne protekcionistické opatrenia.

Spoločnosť predáva finálne výrobky na domácom a medzinárodných trhoch aj za účasti dcérskych spoločností. V roku 2006 bolo predaných 4,3 mil. ton (v roku 2005: 3,6 mil. ton, v roku 2004: 3,7 mil. ton).

Riziká a neistoty Spoločnosti sú uvedené v poznámke 29 Poznámok k priloženej individuálnej účtovnej závierke.

Costs

Reduction of the cost of production is crucial for success in competitive market. Although the prices of raw materials have risen extremely, the Company has been able to reduce production costs through the efficient management systems at all levels and through its continuous improvement process. Many improvement cost saving projects submitted by USSK employees and managers have been implemented. Savings in primary metallurgy, energy production and finishing operations are the most significant ones.

Production Capacity

Annual raw steel production capability is 4.3 million tons. In 2006, the Company produced 4.7 million tons of steel in slabs (2005: 4.1 mil. tons, 2004: 4.1 mil. tons).

Market conditions

The Company conducts its business primarily in Central and Western Europe and is subject to market conditions in these areas. Some factors that could affect market conditions, costs, shipments and prices of the products include worldwide demand, market prices of the products, prices and availability of raw materials and energies, changes in legislation, foreign currency exchange rate fluctuations and various protectionist measures.

The Company also sells its products in domestic and foreign markets through subsidiaries. In 2006, the Company sold 4.3 million tons (in 2005: 3.6 million tons, in 2004: 3.7 million tons).

Risks and uncertainties of the Company are disclosed in Note 29 of the Notes to the accompanying separate financial statements.

Investície

Spoločnosť sa v dohode s vládou SR zaviazala investovať 700 mil. USD počas obdobia odo dna akvizície, 24. novembra 2000 do 31. decembra 2010 okrem iného aj na modernizáciu existujúcich výrobných zariadení a environmentálnych systémov, ako aj na budovanie nových zariadení. Záväzok bol splnený v druhom kvartáli roku 2006.

V apríli 2002 USSK spustila vakuovaciu odplyňovaciu stanicu, ktorá umožnila Spoločnosti vstup na trh s oceľou s nízkym obsahom uhlíka a trh s kremíkovou oceľou. V roku 2003 bola uvedená do prevádzky druhá kontinuálna žíhacia a pocínovacia linka. V roku 2004 bola spustená výroba na tretej dynamo linke pre elektrickú oceľ. V roku 2005 USSK začala výstavbu svojej novej žiarovo-pozinkovacej linky pre automobilové plechy s ročnou kapacitou 350 tisíc ton vysoko kvalitných povrchovo upravených produktoch pre automobilový a konštrukčný priemysel. Významnou investíciou roku 2006 bola výstavba nového kyslíkového aparátu č. 9.

Spoločnosť sa v zmluve s vládou SR okrem iného zaviazala investovať do zariadení s cieľom byť v súlade s environmentálnymi štandardami. Medzi najvýznamnejšie environmentálne projekty Spoločnosti patria primárne, resp. sekundárne odprášenie Oceliarní č. 1 a 2. V roku 2006 sa rekonštrukciou filtrov a úpravou spaľovacieho procesu zabezpečilo plnenie emisných limitov na kotli č. K6 v divíznom závode Energetika, bola ukončená hermetizácia prevádzky Chémia na divíznom závode Koksovňa.

V roku 2006 pokračovali práce na výstavbe pozinkovacej linky č. 3. Komplexné skúšky zariadenia začali vo februári 2007, plánovaná kapacita by sa mala dosiahnuť v štvrtom kvartáli 2007.

<u>Capital Expenditures</u>

The Company has a commitment to the Slovak Government for a capital improvements program of USD 700 million over a period commencing with the acquisition date on 24 November 2000, and ending on 31 December 2010. The Company fulfilled the spending commitment to the Slovak Government in the second quarter of 2006.

In April 2002 USSK commissioned a vacuum degasser, which gave the Company access to the low-carbon and silicon steels markets. In 2003 the second continuous annealing and tinning lines were commissioned. In 2004 production commenced on the third dynamo line for electrical steel. In 2005, USSK started construction of its new automotive-grade hot-dip galvanizing line with an annual capacity of 350,000 tons of high-quality coated sheet products for automotive and construction industries. Significant capital expenditures incurred in 2006 related to Air Separation Unit No. 9.

The Company has a commitment to the Slovak Government to invest, inter alia, in facilities to comply with environmental standards. Primary and secondary de-dusting systems at Steel Shops No. 1 and 2 are one of the most significant environmental projects of the Company. In 2006, filters were reconstructed and combustion process was modified at boiler No. 6 at Energy Plant to meet emission limits and isolation of COG venting at Coke plant was completed.

In 2006, construction of galvanizing line No. 3 continued. Complex tests of the equipment started in February 2007, planned capacity should be achieved in the fourth quarter of 2007.

Firma roka 2006

V novembri 2006 bola spoločnosť U. S. Steel Košice, s.r.o. ocenená týždenníkom Trend titulom Firma roka 2006 za mimoriadne výsledky hospodárenia. Košické oceliarne obhájili prestížnu cenu z roku 2005.

VÝZNAMNÉ UDALOSTI PO SKONČENÍ ÚČTOVNÉHO OBDOBIA 2006

Významné udalosti, ktoré nastali po ukončení účtovnej závierky za rok 2006 sú uvedené v poznámke 32 Poznámok k priloženej individuálnej účtovnej závierke.

PREDPOKLADANÝ VÝVOJ V ROKU 2007

Manažment Spoločnosti očakáva pokračujúci solídny prevádzkový výsledok v roku 2007.

The Company of the Year 2006

In November 2006, U. S. Steel Košice, s.r.o. was awarded "The Company of the Year 2006" by the weekly business magazine Trend for extraordinary business results. The Košice Steelworks won the award for the second successive year.

SIGNIFICANT EVENTS AFTER 2006 BALANCE SHEET DATE

Other significant events occurred after the balance sheet date are disclosed in Note 32 of the Notes to the accompanying separate financial statements.

EXPECTED DEVELOPMENT IN 2007

The Management of the Company expects continued solid operating results in 2007.

U. S. Steel Košice, s.r.o.

Separate financial statements
for the year ended 31 December 2006

prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Slovensko, s.r.o.
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INDEPENDENT AUDITOR'S REPORT

To the member and executives of U. S. Steel Košice, s.r.o.:

We have audited the accompanying financial statements of U. S. Steel Košice, s.r.o. („the Company"), which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of U. S. Steel Košice, s.r.o. as of 31 December 2006, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Slovenská komora auditorov
SKAU
Č.licencie 161
PricewaterhouseCoopers Slovensko, s.r.o.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161

Ing. Mária Frühwaldová
SKAU licence No.: 47

20 June 2007

U. S. Steel Košice, s.r.o.

Separate financial statements for the year ended 31 December 2006 prepared in accordance with International Financial Reporting Standards as adopted by the European Union have been approved and authorized for issue by the statutory representatives on 20 June 2007. The Company's owners or executives do not have the power to amend the financial statements after issue.

Košice, 20 June 2007

David H. Lohr	William C. King	Silvia Gaálová	Adam Dudič
The President (statutory representative)	The Chief Financial Officer (statutory representative)	General Manager Accounting (responsible for accounting)	Director Accounting Compliance and External Reporting (responsible for financial statements preparation)

SEPARATE FINANCIAL STATEMENTS

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SEPARATE FINANCIAL STATEMENTS
(All amounts are in thousands of EUR)

BALANCE SHEET

	Note	31 December 2006	31 December 2005
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	**894,735**	803,367
Intangible assets	7	**77,294**	214,115
Investments	8	**14,821**	14,338
Long-term receivables		**-**	127
Financial assets available-for-sale		**259**	111
Deferred income tax asset	9	**98,856**	148,023
Loans to related party	11	**-**	101,599
Other non-current assets	10	**6,521**	4,537
Total non-current assets		**1,092,486**	**1,286,217**
Current Assets			
Loans to related party	11	**-**	227,911
Inventories	12	**291,357**	244,583
Trade and other receivables	13	**511,806**	439,679
Financial assets available-for-sale		**148**	-
Derivative financial instruments	14	**3,093**	1,229
Cash and cash equivalents	15	**93,435**	39,636
Other current assets	16	**2,669**	1,703
Total current assets		**902,508**	**954,741**
Total Assets		**1,994,994**	**2,240,958**
EQUITY AND LIABILITIES			
Equity			
Base capital	17	**587,842**	587,842
Other reserves	17	**60,796**	44,277
Retained earnings		**871,682**	860,033
Total Equity		**1,520,320**	**1,492,152**
Liabilities			
Non-Current Liabilities			
Provisions for liabilities and charges	19	**35,473**	31,221
Total non-current liabilities		**35,473**	**31,221**
Current Liabilities			
Trade and other payables	21	**328,322**	299,779
Current income tax liability		**36,450**	11,055
Deferred income	22	**12**	2,501
Short-term loans and borrowings	18	**-**	195,000
Provisions for liabilities and charges	19	**74,417**	209,250
Total current liabilities		**439,201**	**717,585**
Total Liabilities and Equity		**1,994,994**	**2,240,958**

The accompanying notes on pages 8 to 44 are an integral part of these financial statements.

SEPARATE FINANCIAL STATEMENTS
(All amounts are in thousands of EUR)

INCOME STATEMENT

	Note	2006	2005
Revenue	23	**2,668,546**	2,369,636
Other income	23	**6,120**	4,312
Materials and energy consumed	24	**(1,493,423)**	(1,388,439)
Salaries and other employees benefits	25	**(232,158)**	(229,272)
Depreciation and amortization	6, 7	**(68,572)**	(65,350)
Repairs and maintenance		**(50,068)**	(40,798)
Transportation services		**(121,543)**	(100,245)
Advisory services		**(17,340)**	(20,333)
Foreign exchange gains / (losses)		**(7,382)**	51,656
Other operating expenses	26	**(118,095)**	(100,940)
Profit from Operations		**566,085**	**480,227**
Finance income	27	**13,485**	8,496
Finance cost	27	**(4,366)**	(3,674)
Profit Before Tax		**575,204**	**485,049**
Income tax expense	28	**(95,750)**	(56,544)
Profit After Tax		**479,454**	**428,505**

SEPARATE FINANCIAL STATEMENTS
(All amounts are in thousands of EUR)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves	Retained earnings	Total
Balance as of 1 January 2005	**587,842**	**23,951**	**899,357**	**1,511,150**
Fair value gains (Note 7)	-	5,252	-	**5,252**
Deferred tax on fair value gains	-	(998)	-	**(998)**
Other	-	15	-	**15**
Net income recognized directly in equity	**-**	**4,269**	**-**	**4,269**
Profit for 2005	-	-	428,505	**428,505**
Total recognized income	**-**	**4,269**	**428,505**	**432,774**
Contribution to legal reserve fund	-	16,057	(16,057)	**-**
Dividends	-	-	(451,772)	**(451,772)**
	-	**16,057**	**(467,829)**	**(451,772)**
Balance as of 31 December 2005	**587,842**	**44,277**	**860,033**	**1,492,152**
Balance as of 1 January 2006	**587,842**	**44,277**	**860,033**	**1,492,152**
Fair value gains (Note 7)	-	(5,252)	-	**(5,252)**
Deferred tax on fair value gains	-	998	-	**998**
Other	-	442	-	**442**
Net income recognized directly in equity	**-**	**(3,812)**	**-**	**(3,812)**
Profit for 2006	-	-	479,454	**479,454**
Total recognized income	**-**	**(3,812)**	**479,454**	**475,642**
Contribution to legal reserve fund	-	20,331	(20,331)	**-**
Dividends	-	-	(447,474)	**(447,474)**
	-	**20,331**	**(467,805)**	**(447,474)**
Balance as of 31 December 2006	**587,842**	**60,796**	**871,682**	**1,520,320**

(All amounts are in thousands of EUR)

CASH FLOW STATEMENT

	Note	Total	
		2006	2005
Profit before tax		**575,204**	**485,049**
Adjustments for			
Depreciation	6	**66,542**	63,035
Amortization	7	**2,030**	2,315
Emission allowances P&L impact		**1,460**	-
Investment impairment losses/(reversals)		**(11)**	-
Losses/(gains) on disposal of property, plant and equipment		**2,168**	364
Losses/(gains) on disposal of investments		**(131)**	-
Losses/(gains) from fair value changes of other financial instruments		**(1,864)**	(665)
Dividend income	27	**(1,479)**	(2,750)
Interest income	27	**(10,851)**	(5,746)
Interest expense	27	**4,366**	3,322
Foreign exchange losses/(gains) on operating activities		**1,823**	(2,859)
Changes in working capital			
Decrease/(increase) in inventories	12	**(46,774)**	(13,617)
Decrease/(increase) in trade and other receivables and other current assets		**(78,179)**	(51,865)
Decrease/(increase) in other financial instruments		**(966)**	-
Increase/(decrease) in trade and other payables and other current liabilities		**16,924**	34,784
Cash generated from operations		**530,262**	**511,367**
Interest paid		**(2,545)**	(2,949)
Income taxes paid		**(22,973)**	(20,217)
Net cash generated from operating activities		**504,744**	**488,201**
Cash flows from investing activities			
Acquisition of subsidiary		**(76)**	(437)
Purchases of property, plant and equipment	6	**(161,064)**	(181,113)
Proceeds from sale of property, plant and equipment		**47**	655
Proceeds from sale of investments	8	**200**	-
Purchases of intangible assets	7	**(8,032)**	(1,926)
Purchases of available-for-sale financial assets		**(296)**	-
Loans granted to related parties	11	**-**	(307,462)
Loan repayments from related parties		**329,510**	293,790
Interest received		**15,119**	4,694
Dividends received		**1,479**	2,750
Net cash used in investing activities		**176,887**	**(189,049)**
Cash flows from financing activities			
Proceeds from borrowings		**-**	195,000
Repayment of borrowings	18	**(195,000)**	(98,424)
Dividends paid to the Company's shareholders		**(432,832)**	(452,391)
Net cash used in financing activities		**(627,832)**	**(355,815)**
Net (decrease)/increase in cash and cash equivalents		**53,799**	**(56,663)**
Cash and cash equivalents at beginning of year	15	**39,636**	96,299
Cash and cash equivalents at end of year	15	**93,435**	**39,636**

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 1 General

U. S. Steel Košice, s.r.o. ("the Company") was established as a limited liability company on 7 June 2000 and incorporated in the Commercial Register on 20 June 2000 in Slovakia (Commercial Register of the District Court Košice I in Košice, Section Sro, Insert 11711/V).

The Company's registered address is:

U. S. Steel Košice, s.r.o.
Vstupný areál U. S. Steel
Košice
044 54
Identification No.: 36 199 222
Tax identification No.: 2020052837
VAT identification No.: SK2020052837

Business activities of the Company

The principal activity of the Company is the production and sale of steel products (Note 23).

Liability in other business entities

The Company as a shareholder has no unlimited liability in other business entities.

Average number of staff

The average number of Company's employees is presented in Note 25.

The Company's bodies

Statutory representatives as of 31 December 2006 were as follows:

David Harman Lohr	President
William Clyde King (from 1 December 2006)	Vice-president for financing
Richard Eugene Veitch (from 1 June 2006)	Vice-president for production
John Baird Peters	Vice-president for sales and marketing
Anton Jura	Vice-president for strategic implementations
Miroslav Kiraľvarga	Vice-president for human resources
Kenneth Ralph Pepperney	General Counsel
Andrew Stewart Armstrong	Vice-president for information technologies

Emoluments of statutory representatives are disclosed in Note 31.

Shareholders of the Company

As of 31 December 2006, the only shareholder of the Company was U.S. Steel Global Holdings I B.V., Rokin 55, 1012 KK Amsterdam, Netherlands owning 100% share on base capital. This share represents 100% of voting rights.

The General Meeting approved the Company's separate financial statements prepared in accordance with Slovak Accounting Standards for the previous accounting period on 19 June 2006. The Company transitioned to International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") for the purposes of preparing these financial statements for the year ended 31 December 2006.

Consolidated Group

The Company prepares consolidated financial statements for U. S. Steel Košice, s.r.o. Group in accordance with IFRS as adopted by the EU. The consolidated financial statements of U. S. Steel Košice, s.r.o. Group are available directly at the registered address of the Company stated above and are also deposited in the Collection of documents of the District Court Košice I, Štúrova 29, 041 51 Košice.

The Company is included in the consolidated financial statements of parent company U. S. Steel Global Holdings I B.V, which are part of the consolidated financial statements of the ultimate controlling party of the Company – United States Steel Corporation, 600 Grant Street, Pittsburgh, Pennsylvania, USA. The consolidated financial statements of the consolidated group are prepared by the United States Steel Corporation in accordance with Generally Accepted Accounting Principles in the United States ("US GAAP") and are available directly at the registered address stated above.

Note 2 Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the separate financial statements are as follows:

2.1 Statement of Compliance

The accompanying separate financial statements (hereinafter "the financial statements") have been prepared in accordance with IFRS as adopted by the EU, issued as at 31 December 2006 and effective for annual periods then ended.

2.2 Basis of Preparation

Legal reason for preparing the financial statements

The Act on Accounting of the Slovak Republic requires certain companies to prepare financial statements for the year ended 31 December 2006 in accordance with IFRS as adopted by the EU.

These financial statements have been prepared in accordance with IFRS as adopted by the EU under the historical cost convention, as modified by the revaluation of intangible assets representing the carbon dioxide emissions allowances and by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

These financial statements have been prepared on the going concern basis.

The Company's last separate financial statements in accordance with Slovak Accounting Standards ("SAS") were prepared for the year ended 31 December 2005. In some areas, SAS differs from IFRS as adopted by the EU. When preparing these financial statements for the year ended 31 December 2006, management has amended certain accounting and measurement methods applied in the SAS financial statements in order to comply with IFRS as adopted by the EU. The 2005 comparative figures were restated to reflect these amendments.

A reconciliation of the 2005 net profit and equity reported in the financial statements prepared in accordance with SAS to those reported under IFRS as adopted by the EU is shown in Note 3.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.3 *Foreign Currency Translations*

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in EURO ("EUR"), which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.4 *Property, Plant and Equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items such as purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Major spare parts and stand-by equipment qualify as property, plant and equipment when the Company expects to use them during more than one period or if the spare parts and servicing equipment can be used only in connection with a specific item of property, plant and equipment.

Land, art collections and construction in progress are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	35 years
Machinery and equipment	5 – 15 years
Other non-current tangible assets	2 – 5 years

Commencement of depreciation is the date when the asset is first available for use.

When assets are disposed of or it is determined that no future economic benefits are expected to arise from the continued use of the asset, the cost and accumulated depreciation of the assets are derecognized and any gain or loss resulting from their disposal is included in the income statement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Recoverable amount is the higher of an assets fair value less costs to sell and value in use. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.5 *Intangible Assets*

Intangible assets other than emissions allowances are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably. The probability of inflow of economic benefits criterion is considered always met for acquired intangible assets because the effect of probability is reflected in the cost of the asset.

After initial recognition, intangible assets, other than emissions allowances, are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives. The amortization period and method are reviewed at each financial year-end.

Research and development costs

Research costs are expensed in the period in which they were incurred. The development costs that relate to a clearly defined product or process where the technical feasibility and the possibility of sale or internal use can be demonstrated and the Company has sufficient resources to complete the project, to sell it or to utilize its results internally, are capitalized up to the amount that is expected to be recovered from future economic benefits. If the conditions for capitalization are not fulfilled, development costs are expensed in the period in which they were incurred.

Software

Acquired computer software is carried at cost less accumulated amortization and any accumulated impairment losses and is classified as an intangible asset unless the software is an integral part of the related hardware. Software is amortized on a straight-line basis over estimated useful lives (2 – 5 years). Expenditure to enhance or extend the software performance beyond its original specifications is capitalized and added to the original cost of the software.

Costs associated with maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Company which will probably generate economic benefits exceeding costs beyond one year are recognized as intangible assets.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives, not exceeding a period of 5 years.

Emissions allowances

Carbon dioxide emissions allowances are allocated annually free of charge by the Slovak Government for a period of one year. They represent an intangible asset which was recorded as of the date the allowances were credited to the National Registry of Emission Rights (thereinafter NRER). The allowances were issued free of charge and are initially recognized at fair value. The fair value of allowances issued represents their market price on the European Energy Stock Exchange as of the date they are credited to the NRER.

As no amount has been paid to acquire this intangible asset, it was recognized in accordance with *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance* as deferred income on the acquisition date and subsequently recognized as an income on a systematic basis over the compliance period for which the allowances have been issued, regardless of whether the allowances are held or sold.

As emissions are made, a liability is recognized for the obligation to deliver the allowances equal to emissions that have been made. This liability is a provision that is disclosed under current provisions for liabilities and charges. It is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date, what represents the market price of the number of allowances required to cover emissions made up to the balance sheet date.

Intangible asset representing the allowances is carried at market value with revaluation surplus recorded in equity. Revaluation decreases are recorded in profit or loss to the extent that they exceed revaluation surplus previously recorded in equity.

2.6 Impairment of Property, Plant and Equipment and Intangible Assets

Intangible assets not yet available for use and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Borrowing Costs

Borrowing costs are expensed as incurred. Interest expense is recognized in the income statement on a time proportion basis using the effective interest method.

2.8 Accounting for Leases

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease (net of any incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term.

2.9 Investments

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Investments in subsidiaries are carried at cost in these financial statements according to IAS 27. Impairment losses are recognized using a provision account based on the present value of estimated future cash flows.

Associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are carried at cost in these financial statements according to IAS 28. Impairment losses are recognized using a provision account based on the present value of estimated future cash flows.

2.10 Financial Assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Management designates financial instruments into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Company’s key management personnel.

Derivatives are categorized as held for trading. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. This category comprises trade and other receivables and loans to related parties presented on the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement of financial assets

Purchases and sales of financial assets are recognized on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at their fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or origination.

Available-for-sale financial assets are carried at cost because fair value can not be reliably determined. Financial assets at fair value through profit and loss (derivative instruments Notes 2.23 and 2.24) are carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method, net of provision made for impairment, if any.

A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the originally agreed terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the loan or receivable is impaired. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognized in the income statement. When the asset is uncollectible, it is written off against the related allowance account.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has (i) transferred substantially all risks and rewards of ownership or (ii) the Company has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2.11 *Inventories*

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion, marketing and distribution.

Cost is determined on the FIFO basis (first-in, first out). The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

2.12 *Cash and Cash Equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 *Equity and Liabilities*

Liabilities and equity

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement on initial recognition.

Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instruments is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is not genuine at the time of issuance or settlement is required only in case of the issuer’s liquidation, in which case the instrument is classified as equity.

Reserves

(a) Legal reserve fund

The legal reserve fund is set up in accordance with the Commercial Code. Contributions to the legal reserve fund of the Company were made at 5% of net income for the prior period based on Slovak statutory financial statements up to 10% of the share capital. Such funds are not distributable and cannot be used for any operating purposes but they may be used to increase share capital or to cover losses.

(b) Revaluation reserve

This reserve includes the cumulative net change in fair value of intangible assets carried at revalued amounts. Upon disposal of the corresponding assets, the cumulative revaluation reserves are transferred to retained earnings. The transfer is not made through the income statement.

2.14 Financial Liabilities

Loans and borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost.

2.15 Dividends

Dividends are recognized in the Company’s accounts in the period in which they are approved by shareholders.

2.16 Government Grants

Government grants are recognized only if there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. They are deferred and amortized on a systematic basis into income over the period necessary to match them with the related costs that they are intended to compensate. Grants received are treated as deferred income in these financial statements. Income relating to government grants is recognized as a deduction from the related expense.

2.17 Provisions

Provision for legal claims, environmental and other obligations is recognized when, and only when, the Company has a present legal or constructive obligation as a result of a past event and it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognized as interest expense.

When some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.18 Deferred Income Tax

Deferred income tax is provided for using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related asset is realized or the liability is settled.

Deferred income tax assets are recognized only to the extent that it is more likely than not that future taxable profit will be available against which the temporary differences, tax loss carry forwards or tax credits can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee Benefits

Defined contribution pension plan

The Company contributes to the government and private defined contribution pension plans.

The Company makes contributions to the government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost.

In addition, with respect to employees of the Company who have chosen to participate in a supplementary pension scheme, the Company makes contributions to the supplementary scheme amounting up to 2% from the monthly accounted wage, but at least 700 SKK per employee for employees working in the III. and IV. risk category and 400 SKK per employee for other employees.

Employee retirement obligation

The Company is committed to make payments to the employees upon first retirement in accordance with Slovak legislation and the Collective Labor Agreement. The liability in respect of this employee benefit is based on the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by U. S. Steel Corporation actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds in the European market which have terms to maturity approximating the terms of the related liability and subsequently attributing such present value to employees' years of service.

Employees are entitled to benefits at first retirement, upon acquiring the entitlement to an old age pension, an invalidity (disability) pension or a pension for years of service as follows:

- if an employee retires in the month in which he or she acquires the entitlement to an old age pension, in the amount of his average monthly pay plus an amount of up to SKK 50 thousand based on the years of employment with the Company;
- in the other cases in the amount of his or her average monthly pay.

Actuarial gains and losses arising from experience adjustments and from changes in actuarial assumptions are charged or credited to income over the remaining working lives of the employees entitled to the benefits. Amendments to the benefit plan are charged or credited to income over the average period until the amended benefits become vested.

Work and life jubilees

The Company also pays certain work and life jubilee benefits. The liability in respect of the work and life jubilee benefits plan is the present value of the defined benefit obligation at the balance sheet date. The present value of defined benefit obligation is calculated annually by U. S. Steel Corporation actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds in the European market which have terms to maturity approximating the terms of the related liability and subsequently attributing such present value to employees' years of service.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income when incurred. Amendments to the work and life jubilees benefit plan are charged or credited to income immediately.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognized in Liability to employees and social security. Liabilities for profit sharing and bonus plans are measured at the amounts expected to be paid when they are settled.

2.20 *Revenue Recognition*

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Revenue is shown net of value-added tax, returns, rebates and discounts.

Sale of own production and goods

Revenue from sales of own production and goods is recognized when the Company has transferred significant risks and rewards to the buyer and has not retained continuing managerial involvement nor effective control over the own production and goods sold.

Sale of services

Revenue from sale of services is recognized in the accounting period in which the services are rendered by reference to the stage of completion when this can be measured reliably. The stage of completion is measured by reference to the actual service provided as a proportion of the total service to be provided.

Interest income

Interest is recognized using the effective interest method.

Dividends income

Dividends are recognized when the shareholder's right to receive payment is established.

2.21 *Segments*

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

As the Company’s operations do not have significantly different risks and returns, and the regulatory environment, the nature of its services, business processes and types of customers for its products and services are homogenous for all its activities, the Company operates as a single business and geographical segment unit.

In addition, in accordance with *IAS 14 Segment reporting*, no segment reporting is presented in these financial statements because the Company has not issued any publicly traded securities.

2.22 *Contingencies*

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2.23 Accounting for Derivative Financial Instruments

Derivative financial instruments, mainly short-term foreign exchange contracts, are initially recognized in the balance sheet at fair value (excluding transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives are included in income statement.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in profit or loss.

Foreign currency forwards embedded in the host raw material purchase contracts denominated in US Dollars are considered to be closely related to the host contracts because raw material prices are routinely denominated in US Dollars in commercial transactions in the economic environment in which the Company operates.

2.24 Fair Value Estimation

The fair value of publicly traded derivatives is based on quoted market prices at the balance sheet date. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. Where quoted market prices are not available the fair value is determined using estimation techniques if appropriate.

The carrying values of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

2.25 Subsequent Events

Events after the balance sheet date that provide additional information about the Company's financial position at the balance sheet date (adjusting events), are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

Note 3 Transition to IFRS as adopted by the EU

The Company first applied IFRS as adopted by the EU in the financial statements prepared at 31 December 2006 with the date of transition to IFRS as adopted by the EU on 1 January 2005. Its last financial statements were prepared for the year ended 31 December 2005 in accordance with Slovak Accounting Standards ("SAS").

(All amounts are in thousands of EUR, unless otherwise indicated)

Subject to certain exceptions, IFRS 1 requires retrospective application of the version of IFRS as adopted by the EU effective for annual periods ending at the reporting date, 31 December 2006. This version was consistently applied in preparing the opening balance sheet at 1 January 2005 and in subsequent periods up to the first reporting date. In preparing these financial statements, the Company has applied the mandatory exceptions and has elected to apply certain optional exemptions from the retrospective application. The following exceptions and exemptions were relevant to the Company:

(a) ***Estimates exception***. Estimates under IFRS as adopted by the EU at 1 January 2005 and 31 December 2005 are consistent with estimates made for the same dates under previous Slovak Accounting Standards.

As the Company became a first-time adopter for its separate financial statements later than for its consolidated financial statements, it measured its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

The following reconciliations provide a quantification of the effect of the transition from SAS to IFRS as adopted by the EU at 1 January 2005, 31 December 2005 and for the year 2005:

Reconciliation of equity

	31 December 2005	**1 January 2005**
Equity reported under SAS in SKK thousands	52,606,876	54,196,851
Equity under SAS translated into EUR	**1,319,452**	**1,341,036**
Adjustments:		
- Property, plant and equipment	9,829	3,300
- Inventories	41,280	30,913
- Employee benefits	(4,966)	(4,792)
- Decommissioning liabilities	(5,978)	(4,600)
- Deferred income tax	132,536	143,689
- Other	(1)	1,604
Equity in accordance with IFRS as adopted by the EU	**1,492,152**	**1,511,150**

Reconciliation of profit for the year ended 31 December 2005

	2005
Profit reported under SAS in SKK thousands	15,691,436
Profit under SAS translated into EUR	**426,383**
Adjustments:	
- Property, plant and equipment	1,431
- Inventories	10,367
- Employee benefits	(174)
- Decommissioning liabilities	(1,378)
- Deferred income tax	(9,554)
- Other	1,430
Profit in accordance with IFRS as adopted by the EU	**428,505**

Reconciliation of cash flows for the year ended 31 December 2005

The Company's operating, investing and financing cash flows reported under SAS did not significantly differ from IFRS as adopted by the EU.

The key adjustments for the differences between SAS and IFRS as adopted by the EU were attributable to the following:

Functional currency

In accordance with *IAS 21*, the Company's functional currency was determined to be EUR. Under SAS there is no concept of functional currency and all financial statements are prepared and presented in Slovak Koruna.

Property, plant and equipment (PP&E)

Under IFRS as adopted by the EU, components of property, plant and equipment are depreciated separately over their respective useful lives. Under SAS, component approach to depreciation was not acceptable.

Inventory

According to *IAS 16 Property, Plant and Equipment*, significant spare parts are capitalized and depreciated over their useful lives. Under SAS, spare parts are considered to be inventory and expensed in full when installed.

Employee benefits

Under SAS, the Company recognized only a liability for retirement obligations. In accordance with IFRS as adopted by the EU, the Company has recorded also the obligation for work and life jubilee benefits.

Decommissioning liabilities

In accordance with IFRS as adopted by the EU, the Company records a provision for closing, reclamation and after-close monitoring of landfills at the present value of estimated future costs. Such provision is initially recorded as an increase of cost of PP&E. Under SAS, the provision is gradually created through profit and loss, based on the waste volume disposed of to the landfill.

Deferred income tax

Under SAS, no deferred tax asset has been recognized for the unused tax credit available to the Company. In addition, the deferred tax on temporary differences between carrying amount and tax base of the assets and liabilities was recorded using effective tax rate (adjusted for the impact of the tax credit) when the differences are expected to reverse. Under IFRS as adopted by the EU, a deferred tax asset has been recognized for the unused tax credit and deferred taxes were calculated for all temporary differences at full tax rate.

The adjustment to the deferred tax also reflects the tax effects of the reconciling adjustments from SAS to IFRS as adopted by the EU.

Other

Other adjustments include mainly foreign currency forwards and embedded derivatives. Under SAS, the change in the fair value of foreign currency forwards, including those embedded in host contracts, is recorded directly in equity. Under IFRS as adopted by the EU, changes in fair value of derivatives are recorded in income statement. Those embedded derivatives initially recorded under SAS are not recognized under IFRS as the functional currency is EUR.

Note 4 Significant Accounting Estimates and Judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below. The Company also makes certain significant judgments in applying its accounting policies as disclosed below.

Functional currency of the Company

The Company's functional currency has been determined to be the EUR based on the underlying economic conditions and operations. This determination of what the specific underlying economic conditions are requires judgment. In making this judgment, the Company evaluates among other factors, the sources of revenue, risks associated with activities and denomination of currencies of its operations. The Company based its judgment on the fact that it operates internationally on markets mainly influenced by the EUR and its major activity is sale of steel in Western and Central Europe. Moreover, majority of capital expenditures and a significant portion of costs are denominated in the EUR. In accordance with the European Union Accession Treaty, the Slovak Government is obliged to introduce the EUR as its national currency and pursues economic policies to achieve this by 2009.

Estimated useful life of PP&E

The average useful life of depreciable PP&E represents approximately 15 years. A revision of the average useful life by 1 year would change the annual depreciation charge by EUR 4 million (2005: EUR 3 million).

Spare parts

As stated in Note 2.4 major spare parts and stand-by equipment are capitalised to property, plant and equipment. The capitalisation threshold to qualify as major spare parts was determined by management to EUR 10 thousand. Their useful life was derived from average life of related property, plant and equipment and estimated to be 7 years. If the threshold increased to EUR 30 thousand, the net income would decrease by EUR 4 million. Change in the estimated useful life by 1 year would change the net income by EUR 2 million.

Taxation

The Company was granted a tax credit (Notes 9 and 28) available through 31 December 2009. Management believes that all tax credit conditions were met for the preceding periods. If a condition is not met for a period, the tax credit claimed for the related period would have to be repaid including related tax penalties.

The Company estimates that it is probable that sufficient future taxable profit will be available against which the unused tax credit can be utilized. The Company applies all available tax strategies to utilize the tax credit in full by end of 2009.

The utilisation of the tax credit is based on managment's assumptions (e.g. future taxable profits, exchange rates and depreciation policy) which are comparable with recent financial results and tax strategies adopted. An increase of taxable profits or exchange rate by 10% would not represent a significant change in the final timing of the tax credit utilisation.

During 2006, the Slovak tax authority audited and confirmed that the Company fulfilled all of the necessary conditions for claiming the tax credit for the years

2000 through 2005.

Certain areas of Slovak tax law have not been sufficiently tested in practice. As a result, there is some uncertainty as to how the tax authorities would apply them. The extent of this uncertainty cannot be quantified. It will be reduced only if legal precedents or official interpretations become available.

Note 5 New Accounting Pronouncements

Certain new IFRSs became effective for the Company from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Company's operations and the nature of their impact on the Company's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2005, unless otherwise described below.

IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006). The amendment to IAS 19 introduces an additional option to recognize actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. The Company decided not to use this option. It also requires certain new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. Where allowed by the standard, the new disclosures are made prospectively as the amounts are determined.

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). The amendment changes accounting for foreign exchange differences arising on intercompany loans that form part of a net investment in a foreign operation. The amendment did not have an impact on these financial statements.

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognized in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Company changed its accounting policies for designation of instruments into this category. The amendment did not have any other impact on these financial statements.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect profit or loss. The Company does not apply hedge accounting and the amendment therefore did not have an impact on these financial statements.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognized at their fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting. The amendment did not have an impact on these financial statements.

IFRIC 4, Determining whether an Arrangement Contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The interpretation did not have an impact on these financial statements.

IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset. The interpretation did not have an impact on these financial statements.

IFRIC 6, Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005 that is from 1 January 2006). The interpretation did not have an impact on these financial statements.

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2007 and which the Company has not early adopted:

IFRS 7 Financial Instruments: Disclosures and a Complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The Standard introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Company is currently assessing what impact the new Standard and the amendment to IAS 1 will have on disclosures in its financial statements.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 is not expected to have an impact on the Company's financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Company is currently assessing the impact the amended Standard on its financial statements.

IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007). The interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. The interpretation is not relevant to the Company.

IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006 that is from 1 January 2007). The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received). IFRIC 8 is not relevant for Company's operations.

(All amounts are in thousands of EUR, unless otherwise indicated)

IFRIC 9, Reassessment of Embedded Derivatives (effective for periods beginning on or after 1 June 2006 that is from 1 January 2007). IFRIC 9 is not expected to have an impact on the Company's financial statements.

IFRIC 10, Interim Financial Reporting and Impairment (effective for periods beginning on or after 1 November 2006 that is from 1 January 2007). This interpretation is not expected to affect the Company's financial statements.

IFRIC 11, IFRS 2, Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007 that is from 1 January 2008). IFRIC 11 is not expected to have material impact on the Company's financial statements.

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 is not expected to have material impact on the Company's financial statements.

Note 6 Property, Plant and Equipment

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
1 January 2005	261,496	459,023	19,059	107,670	**847,248**
Additions	830	9,833	-	181,113	**191,776**
Disposals	(981)	(12,447)	(1,971)	(474)	**(15,873)**
Transfers	25,965	183,697	2,045	(211,707)	**-**
31 December 2005	**287,310**	**640,106**	**19,133**	**76,602**	**1,023,151**
Accumulated Depreciation and Impairment Losses					
1 January 2005	(26,481)	(126,611)	(11,470)	-	**(164,562)**
Depreciation for the year	(8,436)	(51,725)	(2,874)	-	**(63,035)**
Other additions	(180)	(6,861)	-	-	**(7,041)**
Disposals	969	11,914	1,971	-	**14,854**
31 December 2005	**(34,128)**	**(173,283)**	**(12,373)**	**-**	**(219,784)**
Net book value	**253,182**	**466,823**	**6,760**	**76,602**	**803,367**

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
1 January 2006	287,310	640,106	19,133	76,602	**1,023,151**
Additions	-	-	-	161,064	**161,064**
Disposals	(125)	(784)	(150)	(1,138)	**(2,197)**
Transfers	52,153	168,445	1,179	(221,777)	**-**
31 December 2006	**339,338**	**807,767**	**20,162**	**14,751**	**1,182,018**
Accumulated Depreciation and Impairment Losses					
1 January 2006	(34,128)	(173,283)	(12,373)	-	**(219,784)**
Depreciation for the year	(9,574)	(54,319)	(2,649)	-	**(66,542)**
Other additions	-	(2,014)	-	-	**(2,014)**
Disposals	123	784	150	-	**1,057**
31 December 2006	**(43,579)**	**(228,832)**	**(14,872)**	**-**	**(287,283)**
Net book value	**295,759**	**578,935**	**5,290**	**14,751**	**894,735**

(All amounts are in thousands of EUR, unless otherwise indicated)

No property, plant and equipment was pledged in favor of a creditor or restricted in its use as of 31 December 2006. The Company does not record or use assets, the legal title to which has not yet been registered in the real estate cadastre.

Insurance

Non-current tangible assets are insured by Česká poisťovňa Slovensko, a.s. The insurance covers damage caused by theft, disaster and other causes of machinery failure. The insurance compensation for one insurance claim will not exceed USD 600 million i.e. EUR 456 million using the exchange rate as of balance sheet date (2005: USD 500 million i.e. EUR 422 million using the exchange rate as of 31 December 2005); compensation sublimits for individual risks are specified in the insurance contract. Own participation is USD 25 million per claim.

Note 7 Intangible Assets

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
1 January 2005	11,814	-	366	1,360	**13,540**
Additions	-	201,481	-	1,926	**203,407**
Revaluation surplus	-	5,252	-	-	**5,252**
Disposals	(27)	-	(5)	-	**(32)**
Transfers	1,200	-	161	(1,361)	**-**
31 December 2005	**12,987**	**206,733**	**522**	**1,925**	**222,167**
Accumulated Amortization and Impairment Losses					
1 January 2005	(5,485)	-	(284)	-	**(5,769)**
Amortization for the year	(2,200)	-	(115)	-	**(2,315)**
Disposals	27	-	5	-	**32**
31 December 2005	**(7,658)**	**-**	**(394)**	**-**	**(8,052)**
Net book value	**5,329**	**206,733**	**128**	**1,925**	**214,115**

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
1 January 2006	12,987	206,733	523	1,925	**222,168**
Additions	-	252,089	-	8,032	**260,121**
Revaluation surplus	-	(5,252)	-	-	**(5,252)**
Disposals	(42)	(196,096)	(11)	(1,075)	**(197,224)**
Transfers	840	3,398	67	(4,305)	**-**
31 December 2006	**13,785**	**260,872**	**579**	**4,577**	**279,813**
Accumulated Amortization and Impairment Losses					
1 January 2006	(7,658)	-	(394)	-	**(8,052)**
Amortization for the year	(1,929)	-	(101)	-	**(2,030)**
Impairment losses	-	(192,489)	-	-	**(192,489)**
Disposals	42	-	10	-	**52**
31 December 2006	**(9,545)**	**(192,489)**	**(485)**	**-**	**(202,519)**
Net book value	**4,240**	**68,383**	**94**	**4,577**	**77,294**

No intangible assets were pledged in favor of a creditor or restricted in its use as of 31 December 2006.

(All amounts are in thousands of EUR, unless otherwise indicated)

Insurance

Intangible assets are not insured.

Emissions allowances

The Company was allocated free of charge CO_2 emissions allowances by the Slovak Government. They were initially recognized at fair value when allocated and are subsequently measured at their fair value as at balance sheet date. The European Energy Stock Exchange is used to obtain fair value of the allowances. As required by the legislation, the liability for the obligation to deliver the allowances will be settled within few months after the year end.

The balances included in the balance sheet in respect of the emission rights are as follows:

	31 December 2006	31 December 2005
Emission rights (intangible asset)	**68,383**	206,733
Revaluation of emission rights (equity)	**-**	(5,252)
Deferred income (Note 22)	**-**	(2,471)
Liability for the obligation to deliver allowances (provision) (Note 19)	**66,352**	(199,010)

The carrying amount of emission rights amounted to EUR 62,998 thousand as of 31 December 2006 if cost model had been used (31 December 2005: EUR 201,481 thousand).

Note 8 Investments

The activities of the subsidiaries shown below are closely connected with the principal activity of the Company. None of the subsidiaries is listed on any stock exchange.

The Company had following investments in subsidiaries and associates as of 31 December:

Entity	Place of incorporation	Principal activities	Ownership interest as of		Balance as of	
			31 December 2006	31 December 2005	31 December 2006	31 December 2005
Subsidiaries						
ELEKTROSERVIS VN a VVN, a.s.	Slovakia	Maintenance	**67.00 %**	67.00 %	**16**	16
ENERGOSERVIS a.s. Košice	Slovakia	Maintenance	**81.98 %**	67.12 %	**95**	35
VOZMULT a.s. Košice v likvidácii (1)	Slovakia	Maintenance	**50.91 %**	50.91 %	**10**	10
U. S. Steel Košice – Labortest, s.r.o.	Slovakia	Chemical analysis	**99.97 %**	99.97 %	**2,130**	2,130
U.S. Steel Košice – SBS, s.r.o.	Slovakia	Security services	**98.00 %**	98.00 %	**34**	34
VULKMONT, a.s. Košice	Slovakia	Vulcanization services	**100.00 %**	80.50 %	**78**	62
"Trgovinsko preduzece „USSKS" d.o.o. Beograd Bulevar Mihajla Pupina 165A in liquidation	Serbia	Services	**-**	100.00 %	**-**	4
Refrako s.r.o.	Slovakia	Refractory production	**99.98 %**	99.98 %	**4,565**	4,565
Reliningserv s.r.o	Slovakia	Refractory services	**99.95 %**	99.95 %	**1,390**	1,390
U. S. Steel Services s.r.o.	Slovakia	Various services	**99.96 %**	99.96 %	**1,671**	1,671
OBAL-SERVIS, a.s. Košice	Slovakia	Packaging	**100.00 %**	100.00 %	**1,304**	839
U. S. Steel Kosice – Belgium S.A.	Belgium	Steel trading	**100.00 %**	51.00 %	**-**	-
U.S. Steel Košice–Bohemia a.s.	Czech Republic	Steel trading	**100.00 %**	100.00 %	**536**	536
U.S. Steel Kosice – France S.A.	France	Steel trading	**99.94 %**	99.94 %	**212**	212

(All amounts are in thousands of EUR, unless otherwise indicated)

Entity	Place of incorporation	Principal activities	Ownership interest as of		Balance as of	
			31 December 2006	31 December 2005	31 December 2006	31 December 2005
U. S. Steel Kosice–Hungary Kft. v.a.	Hungary	Steel trading	**-**	69.00 %	**-**	-
U.S. Steel Kosice–Germany GmbH	Germany	Steel trading	**100.00 %**	100.00 %	**2,393**	2,447
U.S. Steel Kosice – Austria GmbH	Austria	Steel trading	**100.00 %**	100.00 %	**-**	-
U. S. Steel Kosice Switzerland AG in liquidation	Switzerland	Steel trading	**100.00 %**	100.00 %	**286**	286
Associate						
U. S. Steel Košice (UK), Ltd	Great Britain	Steel trading	**50.00 %**	50.00 %	**101**	101
Total investments					**14,821**	**14,338**

(1) VOZMULT a.s. Košice v likvidácii entered into liquidation process effective 1 September 2006.

The Company increased its share in the following companies:

- ENERGOSERVIS a.s. Košice by purchase of shares from minority shareholders,
- VULKMONT, a.s. Košice by purchase of shares from minority shareholders,
- U. S. Steel Kosice – Belgium S.A. by purchase from U.S. Steel Kosice–Germany GmbH

Liquidator of the U. S. Steel Kosice Switzerland AG in liquidation was appointed by the Company.

Trgovinsko preduzece „USSKS“ d.o.o. Beograd Bulevar Mihajla Pupina 165A in liquidation and U. S. Steel Kosice–Hungary Kft. v.a. dissolved effective 6 November 2006 and 19 December 2006, respectively.

As of 22 May 2006, FINOW Verwaltungs- und Service GmbH was established by the Company through the spin off from U.S. Steel Kosice–Germany GmbH. Walzwerk Finow GmbH and its subsidiary Stawa Stahlbau GmbH became wholly owned subsidiaries of FINOW Verwaltungs- und Service GmbH. As of 1 November 2006, 100% share of FINOW Verwaltungs- und Service GmbH was sold to the third unrelated party for EUR 200 thousand.

The carrying value of investment in OBAL-SERVIS, a.s. Košice increased by contribution of property, plant and equipment by U. S. Steel Košice, s.r.o. and decreased in U.S. Steel Kosice–Germany GmbH by the spin-off and subsequent sale of FINOW Verwaltungs- und Service GmbH.

Equity as of 31 December 2006 and the 2006 profit/(loss) of the companies, together with comparative figures for the previous accounting period, are shown in the following table:

Entity	Currency	Profit / (loss) for		Equity as of	
		2006	2005	31 December 2006	31 December 2005
Subsidiaries					
ELEKTROSERVIS VN a VVN, a.s.	SKK	**6,316**	5,298	**16,566**	10,548
ENERGOSERVIS a.s. Košice	SKK	**11,769**	7,374	**37,103**	25,703
VOZMULT a.s. Košice v likvidácii (1)	SKK	**462**	625	**4,762**	4,350
U. S. Steel Košice – Labortest, s.r.o.	SKK	**5,524**	8,377	**124,115**	118,589
U.S. Steel Košice – SBS, s.r.o.	SKK	**4,630**	4,963	**21,290**	16,660
VULKMONT, a.s. Košice	SKK	**15,153**	12,232	**60,339**	45,918
"Trgovinsko preduzece „USSKS“ d.o.o. Beograd Bulevar Mihajla Pupina 165A in liquidation	RSD	**-**	1,079	**-**	18,064
Refrako s.r.o.	SKK	**17,536**	35,223	**324,250**	306,332
Reliningserv s.r.o	SKK	**10,643**	11,519	**95,413**	85,346

(All amounts are in thousands of EUR, unless otherwise indicated)

Entity	Currency	Profit / (loss) for		Equity as of	
		2006	2005	31 December 2006	31 December 2005
U. S. Steel Services s.r.o.	SKK	**940**	1,608	**71,731**	70,952
OBAL-SERVIS, a.s. Košice	SKK	**40,604**	28,856	**176,608**	120,043
U. S. Steel Kosice – Belgium S.A.	EUR	**(14)**	(4)	**(1,582)**	(1,578)
U.S. Steel Košice–Bohemia a.s.	CZK	**18,524**	9,634	**70,252**	61,211
U.S. Steel Kosice – France S.A.	EUR	**272**	51	**497**	275
U. S. Steel Kosice–Hungary Kft. v.a.	HUF	**-**	25,399	**-**	100,522
U.S. Steel Kosice–Germany GmbH	EUR	**489**	380	**3,294**	2,478
U.S. Steel Kosice – Austria GmbH	EUR	**136**	122	**107**	(29)
U. S. Steel Kosice Switzerland AG in liquidation	CHF	**357**	24	**903**	879
Associate					
U. S. Steel Košice (UK), Ltd	GBP	**1,029**	971	**1,229**	920

[(1)] VOZMULT a.s. Košice v likvidácii entered into liquidation process effective 1 September 2006.

There was no pledge on Company's ownership interests in subsidiaries and associate as at 31 December 2006.

There are no significant restrictions on the subsidiaries' or associate's ability to transfer funds to the parent company in the form of cash, dividends or otherwise.

For subsequent events see Note 32.

Note 9 Deferred Income Taxes

Differences between IFRS as adopted by the EU and Slovak taxation regulations give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 19% (2005: 19%):

	1 January 2005	Recognized in income	Recognized in equity	31 December 2005
Property, plant and equipment	30,742	(4,023)	-	**26,719**
Inventories	1,942	1,181	-	**3,123**
Employee benefits	911	33	-	**944**
Deferred charges	3,993	(102)	-	**3,891**
Bad debt provisions	1,918	(1,319)	-	**599**
Unrealized foreign exchange losses	42,839	(42,839)	-	**-**
Tax credit	103,662	9,324	-	**112,986**
Emission allowances transactions	-	-	(998)	**(998)**
Other items	772	(13)	-	**759**
Total	**186,779**	**(37,758)**	**(998)**	**148,023**
Deferred tax asset	186,779			**148,023**
Deferred tax liability	-			**-**

	1 January 2006	Recognized in income	Recognized in equity	31 December 2006
Property, plant and equipment	26,719	4,871	-	**31,590**
Inventories	3,123	668	-	**3,791**
Employee benefits	944	2,140	-	**3,084**
Deferred charges	3,891	(1,727)	-	**2,164**
Bad debt provisions	599	119	-	**718**
Tax credit	112,986	(54,675)	-	**58,311**
Emission allowances transactions	(998)	83	998	**83**
Other items	759	(1,644)	-	**(885)**
Total	**148,023**	**(50,165)**	**998**	**98,856**
Deferred tax asset	148,023			**98,856**
Deferred tax liability	-			**-**

The expected timing of the reversal of temporary differences is as follows:

	31 December 2006	31 December 2005
Deferred tax to be realized within 12 months	**55,545**	51,362
Deferred tax to be realized after 12 months	**43,311**	96,661

The Company has no unrecognized potential deferred tax assets as of 31 December 2006 and 31 December 2005.

<u>Tax credit</u>

The provisions of the Slovak Income Tax Act permit the Company to claim a tax credit of 100% of its income tax liability for years 2000 through 2004 and 50% for the years 2005 through 2009. In connection with Slovakia joining the European Union, the total tax credit granted to the Company was limited to USD 430 million for the period 2000 through 2009.

As of 31 December 2006, the cumulative tax credit claimed from 2000 amounted to USD 353 million (31 December 2005: USD 296 million). The tax credit requirements include mainly reinvestment of the tax saved in qualifying assets, the export has to exceed 60% of total revenue and other specific administrative requirements. During 2006, the Slovak tax authority audited and confirmed that the Company fulfilled all of the necessary conditions for claiming the tax credit (Notes 4 and 28) for the years 2000 through 2005.

The Company has recognized a deferred tax asset for the tax credit in accordance with *IAS 12 Income Taxes*. The Company believes it is probable that sufficient taxable profits will be available in the future against which the unused tax credit can be utilized. The amount recognized at each period end represents the unused portion of the total tax credit which is translated into EUR using the closing exchange rate. The tax credit is denominated in USD and the unused balance amounted to USD 77 million (EUR 58 million using the exchange rate as of balance sheet date) as of 31 December 2006 (31 December 2005: USD 134 million i.e. EUR 113 million using the exchange rate as of 31 December 2005).

Note 10 Other Non-Current Assets

	31 December 2006	31 December 2005
Cash restricted in its use	**6,513**	4,527
Loans to employees	**8**	10
Total other non-current assets	**6,521**	**4,537**

(All amounts are in thousands of EUR, unless otherwise indicated)

The major part of cash restricted in its use represents long-term cash deposits made by the Company for closure, reclamation and after-close monitoring of landfills (Note 19). The effective interest rate on restricted cash in bank is disclosed in Note 15.

Note 11 Loans with Related Parties

	31 December 2006	31 December 2005
Loan to U.S. Steel Serbia B.V. IV	-	101,599
Loan to U.S. Steel Global Holding B.V. I	-	227,911

A long-term loan provided to U. S. Steel Serbia B.V. IV, a related party under common control, in 2004 with interest rate 7.2315 % p.a. was early paid in full in July 2006. The loan was denominated in USD, subsequently converted to EUR as of 1 January 2006 and due in June 2010.

The short-term loan was provided to U.S. Steel Global Holdings I. B.V., the Company's parent entity, in December 2005 with interest rate of 4.695 % p.a. The facility was denominated in USD, subsequently converted to EUR as of 1 January 2006 and due in December 2006. The entire balance of the loan principal and related interest was early paid in full in July 2006.

Note 12 Inventories

	31 December 2006	31 December 2005
Raw materials	**138,576**	104,826
Work-in-progress	**41,272**	33,367
Semi-finished production	**31,524**	30,387
Finished goods	**65,653**	52,895
Merchandise	**14,332**	23,108
Total	**291,357**	**244,583**

The inventory items are shown after provision for slow-moving inventory of EUR 3,123 thousand (31 December 2005: EUR 2,187 thousand). No inventories were pledged or restricted in use as of 31 December 2006.

Note 13 Trade and Other Receivables

	31 December 2006	31 December 2005
Trade receivables	**465,956**	427,172
Advance payments made	**3,275**	7,587
VAT receivable	**61,710**	39,996
Other receivables	**2,084**	1,591
Less provision for impairment	**(21,219)**	(36,667)
Trade and other receivables	**511,806**	**439,679**

Ageing structure of trade and other receivables (gross) is presented in the table below:

	31 December 2006	31 December 2005
Receivables within the due date	**471,752**	415,291
Receivables overdue less than 180 days	**39,768**	25,072
Receivables overdue more than 180 days	**21,505**	35,983
Total	**533,025**	**476,346**

(All amounts are in thousands of EUR, unless otherwise indicated)

The maximum credit risk exposure at the balance sheet date is the carrying value of each class of receivable mentioned above. The Company mitigates credit risk for approximately 58% (2005: 53%) See Note 29.

Trade and other receivables totaling EUR 17,652 thousand and EUR 1,205 thousand were written off in 2006 and 2005, respectively. The major write-off in 2006 was offset with release of provision for impairment in the same period i.e. without affecting net result for the year.

No receivables of the Company were pledged in favor of a bank or other entities as of 31 December 2006 and 31 December 2005.

Note 14 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Company are not traded and were agreed with the banks on specific contractual terms and conditions. Derivatives have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market foreign exchange rates. The aggregate fair values of derivative financial assets can fluctuate significantly from time to time. The table below sets out fair values, at the balance sheet date, of foreign exchange forwards contracts entered into by the Company:

	31 December 2006	31 December 2005
Foreign exchange forwards (asset)	**3,093**	1,229
Total	**3,093**	**1,229**

The table below reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature:

	31 December 2006 in curr ’000	31 December 2005 in curr ’000
EUR payable on settlement	**(71,500)**	(71,500)
SKK receivable on settlement	**1,916,935**	2,012,672
USD receivable on settlement	**25,395**	23,285

Note 15 Cash and Cash Equivalents

	31 December 2006	31 December 2005
Cash in hand	**41**	27
Cash at bank	**93,394**	39,609
Total	**93,435**	**39,636**

Cash at bank earns approx. 3.5 % p.a. for EUR deposits, 3.9 % p.a. for SKK deposits and 5.1 % p.a. for USD deposits at 31 December 2006 (31 December 2005: 2.2% p.a. for EUR deposits, 1.8% p.a. for SKK deposits and 4.1% p.a. for USD deposits).

Cash restricted in its use is shown as other non-current assets (Note 10).

Note 16 Other Current Assets

The balance of other current assets represents prepaid expenses totaling

(All amounts are in thousands of EUR, unless otherwise indicated)

EUR 2,669 thousand as of 31 December 2006 (31 December 2005: EUR 1,703 thousand).

Note 17 Equity

Base capital

The Company's registered and fully paid in capital is EUR 587,842 thousand (SKK 25,286 million). The Company does not have unregistered capital as of 31 December 2006. There were no changes in base capital during 2006 and 2005.

Other reserves

The movement in other reserves is as follows:

	Other capital funds	Legal reserve fund	Asset revaluation reserve (net of tax)	Total
1 January 2005	44	21,854	2,054	**23,952**
Contribution to legal reserve fund	-	16,056	-	**16,056**
Revaluation of CO_2 emissions allowances (net of tax)	-	-	4,254	**4,254**
Other	-	-	15	**15**
31 December 2005	**44**	**37,910**	**6,323**	**44,277**
1 January 2006	44	37,910	6,323	**44,277**
Contribution to legal reserve fund	-	20,331	-	**20,331**
Revaluation of CO_2 emissions allowances (net of tax)	-	-	(4,254)	**(4,254)**
Other	-	-	442	**442**
31 December 2006	**44**	**58,241**	**2,511**	**60,796**

The total distributable earnings of the Company represent EUR 871,682 thousand as of 31 December 2006 (31 December 2005 under SAS: SKK 25,633 million).

The profit for 2005 was distributed as follows:

	2005
Contribution to legal reserve fund	20,331
Transfer to retained earnings	408,174
Total	**428,505**

Dividends

Dividends were approved and distributed based on SAS net income presented in SKK. Dividends totaling SKK 17,000,000 thousand (EUR 447,474 thousand) and SKK 17,433,900 thousand (EUR 451,772 thousand) were approved in June 2006 and June 2005, respectively. Unpaid dividends totaled EUR 23,287 thousand as of 31 December 2006 (31 December 2005: EUR 3,962 thousand) (Note 21).

Note 18 Loans and Borrowings

	31 December 2006	31 December 2005
Loan from ING Bank N.V.	-	195,000
	-	**195,000**
Current portion of loans and borrowings	-	195,000
Non-current portion of loans and borrowings	-	-

(All amounts are in thousands of EUR, unless otherwise indicated)

In December 2005, the Company received short-term syndicated loan totaling EUR 195 million from ING Bank N.V., London at interest rate EURIBOR + 0.2% p.a. The loan was denominated in EUR and due on 15 December 2006. The syndicated loan was paid in full and terminated in 2006.

The Company has two EUR 40 million and EUR 20 million credit facilities provided by the agent Citibank (Slovakia) a.s. (Note 29). The facilities were not drawn as at 31 December 2006 but were utilized for bank guarantees of EUR 3,724 thousand (31 December 2005: EUR 3,144 thousand). The commitment fee amounted to 0.07% p.a. during 2006 (2005: 0.1% - 0.25% p.a.).

Carrying amounts of loans and borrowings at each balance sheet date approximate their fair values.

Note 19 Provisions for Liabilities and Charges

	Employee Benefits	Landfill	Litigation	CO_2 emissions	Other	Total
Balance as at 31 December 2005	**14,566**	**16,655**	**9,754**	**199,010**	**486**	**240,471**
Provisions made during the year	2,729	2,625	-	66,352	135	**71,841**
Provisions used during the year	(1,102)	-	(1,855)	(199,010)	(455)	**(202,422)**
Balance as at 31 December 2006	**16,193**	**19,280**	**7,899**	**66,352**	**166**	**109,890**
Current portion of provisions	-	-	7,899	66,352	166	**74,417**
Non-current portion of provisions	16,193	19,280	-	-	-	**35,473**

Movement of provisions caused by passage of time (i.e. accretion expense) was considered to be immaterial in 2006 and 2005.

<u>Employee benefits</u>

Employee benefits provisions relate to payments to the employees upon first retirement and for work and life jubilees in accordance with the Collective Labor Agreement and the Labor Code (Note 20).

<u>Landfill</u>

Since 1 July 2002 the Company as operator of two landfills (non-hazardous and hazardous waste) recognized a provision for closing, reclamation and after-close monitoring of landfills based on the Act on Waste. The usage of landfills was approved until 31 December 2008.

<u>Litigation</u>

The Company uses external legal counsels to act in the legal proceedings. Management has made its best estimate of the probabilities and the contingent loss amounts associated with all legal proceedings in both Slovakian and foreign jurisdictions and has recorded accruals accordingly. These proceedings are at different stages and some may proceed for undeterminable periods of time. Further disclosures about the litigation proceedings could prejudice the Company's position in the dispute and are therefore not made.

<u>CO_2 emissions</u>

The provision was recognized for CO_2 emissions made in 2006. It is calculated as a multiple of estimated volume of CO_2 emitted for the calendar year and the fair value of CO_2 credits on the European Energy Stock Exchange. The provision was charged to Other operating expenses (Note 26) net of amortization of related deferred income (Note 22).

(All amounts are in thousands of EUR, unless otherwise indicated)

Other

Other provisions include warranty provisions and provisions for other business risks.

Note 20 Employee Benefits Obligations

Employee retirement obligation

The Company is committed to make payments to the employees upon retirement in accordance with the Labor Code and Collective Labor Agreement. The defined benefit obligation is calculated annually by U. S. Steel Corporation actuaries using the projected unit credit method.

Work and life jubilees

The Company also pays certain work and life jubilee benefits. The liability is calculated consistently with the employee retirement obligation except that actuarial gains and losses and past services costs are recognized immediately in the income statement.

The movement in the accrued liability over the years is as follows:

	2006	2005
Opening balance on 1 January	**14,566**	14,980
Total expense charged in the income statement	**2,729**	1,052
Benefits paid	**(1,102)**	(1,466)
Closing balance on 31 December	**16,193**	**14,566**

The amounts recognized in the balance sheet are determined as follows:

	2006	2005
Present value of defined benefit obligation	**13,643**	14,412
Unrecognized actuarial gains / (losses)	**2,846**	445
Unrecognized past service costs	**(296)**	(291)
Liability in the balance sheet	**16,193**	**14,566**

The amounts recognized in the income statement are determined as follows:

	2006	2005
Current service costs	**769**	308
Interest costs	**917**	346
Net actuarial losses (gains) recognized	**(355)**	10
Foreign exchange difference	**1,398**	388
Total expense (Note 19)	**2,729**	**1,052**

Service cost and net actuarial losses (gains) are presented in Salaries and other employee benefits (Note 25) of income statement. Foreign exchange differences are included in the Foreign exchange gains / (losses) of the income statement and interest costs in the finance result.

Principal actuarial assumptions used to determine pension obligations as of 31 December were as follows:

	2006	2005
Discount rate	**5.50%**	5.50%
Annual wage and salary increases	**5.00%**	5.00%

(All amounts are in thousands of EUR, unless otherwise indicated)

Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognized in other liabilities. Liabilities for profit sharing and bonus plans are measured at the amounts expected to be paid when they are settled.

Defined contribution pension plan

Throughout the year, the Company made contributions to the Government's health, retirement benefit and unemployment schemes amounting to 24.7% (2005: 22.4%) of gross salaries up to a monthly salary ceiling between SKK 22 thousand to SKK 47 thousand.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Company made contributions to the supplementary scheme amounting up to 1.9% from the monthly accounted wage in 2006 (2005: 1.6%).

Termination benefit

The Company offered to its certain employees a voluntary early retirement program in 2005. The total special termination benefit expense amounted to EUR 16,219 thousand and was recorded under Salaries and other employee benefits in 2005 profit and loss (Note 25). There is no liability recorded as of 31 December 2006.

Note 21 Trade and Other Payables

	31 December 2006	31 December 2005
Trade payables	**157,738**	152,356
Uninvoiced deliveries and other accrued expenses	**96,473**	105,406
Advance payments received	**2,119**	912
Liability to employees and social security	**20,134**	20,934
Dividends payable (Note 17)	**23,287**	3,962
VAT and other taxes and fees	**16,646**	2,944
Other non-trade payables	**11,925**	13,265
Total trade and other payables	**328,322**	**299,779**

Ageing structure of trade payables is presented in the table below:

	31 December 2006	31 December 2005
Trade payables within the due date	**152,698**	136,137
Trade payables overdue	**5,040**	16,219
Total	**157,738**	**152,356**

Contributions to and withdrawal from the social fund during the accounting period are shown in the following table:

	2006	2005
Opening balance on 1 January	**1,209**	754
Company contribution (company costs)	**1,446**	1,362
Employees contribution (repayments)	**617**	510
Withdrawals	**(1,947)**	(1,417)
Closing balance on 31 December	**1,325**	**1,209**

The social fund is used for social, medical, relaxing and similar employees' needs in accordance with social fund law. The balances are included in the Liability to employees and social security caption of the table above.

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 22 Deferred Income

	31 December 2006	31 December 2005
Emissions allowances (Note 7)	**-**	2,471
Other deferred income	**12**	30
Total deferred income	**12**	**2,501**

Note 23 Revenue and Other Income

The main activities of the Company are production and sale of flat rolled steel products, steel plates, tubes, raw iron, coke and production and distribution of electricity, heat and gas.

Revenue comprise of the following:

	2006	2005
Sales of own production	**2,361,256**	2,076,520
Sales of goods [1]	**297,563**	281,213
Rendering of services	**9,727**	11,903
Total	**2,668,546**	**2,369,636**

[1] Sales of goods represent primarily deliveries of raw materials to U. S. Steel Serbia d.o.o., a related party under common control (Note 31).

Other income

Other income includes rental income and contractual penalties.

Note 24 Materials and Energy Consumed

Materials and energy consumed comprises of the following:

	2006	2005
Materials consumed	**(1,145,839)**	(1,070,866)
Energy consumed	**(77,383)**	(56,159)
Costs of goods sold	**(292,001)**	(277,986)
Changes in inventory	**21,800**	16,572
Total	**(1,493,423)**	**(1,388,439)**

Note 25 Salaries and Other Employee Benefits

Salaries and employee benefits comprise of the following:

	2006	2005
Wages and salaries	**(137,517)**	(129,675)
Profit sharing expense	**(27,085)**	(22,625)
Termination benefits (Note 20)	**-**	(16,219)
Social security – Defined contribution plan (Note 20)	**(57,249)**	(51,338)
Other social expenses	**(9,893)**	(9,097)
Pension expenses – Retirement and Work and Life Jubilees (Note 20)	**(414)**	(318)
Total	**(232,158)**	**(229,272)**

(All amounts are in thousands of EUR, unless otherwise indicated)

During 2005, a voluntary early retirement program was offered to certain employees of the Company. The termination benefit expense of EUR 16,219 thousand was recorded for those employees who accepted the offer during 2005.

The average number of the Company's employees for the 2006 was 13,558 (2005: 14,112), from which 212 were key management employees (2005: 214).

Note 26 Other Operating Expenses

	2006	2005
Bad debt expense and write-off	**(1,818)**	3
Cleaning and waste	**(7,899)**	(8,872)
Rent	**(2,533)**	(2,444)
Advertising and promotion	**(2,562)**	(2,015)
Intermediary fees	**(7,420)**	(8,377)
Training	**(2,467)**	(2,436)
Profit / (loss) on emissions allowances transactions (Notes 7, 19, 22)	**191,123**	-
Impairment loss – emissions allowances (Note 7)	**(192,489)**	-
Impairment loss – inventory (Note 12)	**(936)**	60
Profit / (loss) on disposal of material	**(814)**	917
Real estate tax and other taxes	**(3,865)**	(3,775)
Other operating expenses [1]	**(86,415)**	(74,001)
Total	**(118,095)**	**(100,940)**

[1] Other operating expenses include various types of services not exceeding EUR 5 million individually.

Note 27 Finance Income and Finance Cost

	2006	2005
Interest income	**10,851**	5,746
Dividend income	**1,479**	2,750
Interest expense	**(4,366)**	(3,322)
Foreign exchange differences on borrowings	**1,155**	(352)
Total	**9,119**	**4,822**

Note 28 Income Taxes

	2006	2005
Current tax	**(45,585)**	(18,786)
Deferred tax (Note 9)	**(50,165)**	(37,758)
Total income tax expense	**(95,750)**	**(56,544)**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to the Company as follows:

	2006	2005
Profit before tax	**575,204**	485,049
Tax calculated at 19% tax rate	**109,289**	92,159
Non-deductible expenses	**3,385**	1,373
Effect of functional currency on temporary differences	**(16,924)**	(23,486)
Effect of tax payment of USD 32 million based on EC decision	**-**	(13,502)
Tax charge	**95,750**	**56,544**

The weighted average effective tax rate was 17% (2005: 12%).

On 22 September 2004 an agreement was reached resolving a dispute regarding the effective date of limitations upon the production of flat–rolled products at the Company. The agreement calls for the maximum tax credit, which is available to the Company through to 2009, to be reduced by USD 70 million to USD 430 million from the USD 500 million limit provided for in the EU Accession Treaty. Furthermore, the Company agreed to make two tax payments of USD 16 million each to the Slovak Government in 2004 and 2005, respectively. Under the terms of the settlement, the Company agreed that the Treaty's production and sales limitation provisions, which are based upon flat-rolled product production and sales in 2001 and provide for annual increase of 3% and 2% respectively, will be honored by the Company from January 1, 2004 onwards. Management is confident that all conditions were fulfilled. See also Note 9.

Note 29 Financial Risk Management

Credit risk

The Company is exposed to credit risk in the event of non-payment by customers principally within the automotive, steel, container and construction industries. Changes in these industries may significantly affect management's estimates and the Company's financial performance. The Company mitigates credit risk for approximately 58% (2005: 53%) of its revenues by requiring bank guarantees, letters of credit, credit insurance, prepayment or other collateral. The majority of the customers of the Company are located in Central and Western Europe. No single customer accounts for more than 10% of gross annual revenues.

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates.

Liquidity risk

The Company policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of credit facilities to cover the liquidity risk in accordance with its financing strategy.

The Company has a EUR 40 million credit facility provided by the agent Citibank (Slovakia) a.s. that expires on 13 December 2009. This credit facility may be used for drawing short-term loans, issue of bank guarantees and letters of credits. Short-term loans bear interest at prevailing short-term market rates plus 0.25 % p.a.. The Company is obliged to pay a 0.07 % p.a. commitment fee on undrawn amounts. As of 31 December 2005 there were no borrowings against this facility.

In addition, a short-term credit facility of EUR 20 million provided by the agent Citibank (Slovakia) a.s. is available to the Company. This credit facility may be used until 31 December 2009 for drawing bank overdraft, short-term loans, issue of bank guarantees and letters of credits. Short-term loans bear interest at prevailing short-term market rates plus 0.25 % p.a. and the bank overdrafts bears interest at prevailing market rates plus 0.25 % p.a. The Company is obliged to pay a 0.07 % p.a. commitment fee on undrawn amounts. As of 31 December 2006 the credit facility has been used in the amount of EUR 3,724 thousand for bank guarantees.

(All amounts are in thousands of EUR, unless otherwise indicated)

Foreign exchange risk

The Company is exposed to the risk of exchange rate fluctuations related to anticipated revenues and operating costs, commitments for capital expenditures and existing assets or liabilities denominated in foreign currencies. The Company is subject to foreign currency exchange risks because its revenues are primarily in EUR and its costs are primarily in Slovak koruna and U.S. dollars.

Commodity price risk

In the normal course of its business, the Company is exposed to market risk or price fluctuations related to the production or sale of steel products. The Company is exposed to commodity price risk on both purchasing and sales sides, and manages the risk through the resulting natural hedge. The Company did not carry out any derivative transaction mitigating commodity price risk.

Note 30 Commitments and Contingencies

Operating leases

The future aggregated minimum lease payments under non-cancellable operating leases are as follows:

	2006	2005
Not later than 1 year	**1,583**	1,478
Later than 1 year and not later than 5 years	**1,276**	1,431
Later than 5 years	**35**	43
Total	**2,894**	**2,952**

Capital commitments and commitments to Slovak Government

Capital expenditure of EUR 78 million had been committed under contractual arrangements as of 31 December 2006 (31 December 2005: EUR 96 million).

The Company has a commitment to the Slovak Government for a capital improvements program of USD 700 million, subject to certain conditions, over a period commencing with the acquisition date of 24 November 2000, and ending on 31 December 2010. Capital expenditures totaled USD 763 million by 31 December 2006 (31 December 2005: USD 603 million). The Company fulfilled the commitment to the Slovak Government in August 2006.

The Company’s other commitments to the Slovak Government also include to retain the employment levels (except for natural retirement) for a period of 10 years and support foreign investment in Slovakia for a two-year period from November 2000.

As part of the acquisition of the U. S. Steel Košice, s.r.o. by United States Steel, the Company is committed to purchasing certain services from Slovenské investičné družstvo (former VSŽ akciová spoločnosť Košice) in the future. These transactions are conducted under terms comparable with unrelated parties or at cost plus an agreed mark-up where comparable prices are not available. The Company was also obliged to sell to Slovenské investičné družstvo steel products under terms and price formulas agreed to prior to the acquisition date until October 2005. In 2006, the Company had not sold any products and services to the Slovenské investičné družstvo (2005: EUR 1 million) nor purchased any services (2005: EUR 1 million).

Environmental commitments

As part of an agreement with the Slovak Government, the Government has agreed to indemnify and hold harmless the Company, United States Steel, their affiliates and the officers, directors, employees, agents and contractors for remediation, restoration, compensation, indemnity and other matters, as defined in the agreement, relating to environmental conditions existing prior to completion of the acquisition of the Company by United States Steel on 24 November 2000. Some aspects of this indemnification gradually expired between 2001 and 2004. In light of the indemnification contained in the agreement with the Slovak Government, management has assessed that there is no need for any accrual of costs related to the remediation of environmental damage existing as of the acquisition date. Under the current status of legislation in the Slovak Republic, the Company has not incurred material obligations to remedy environmental damage caused by its operations.

The Company is also committed to incur capital expenditures into production equipment so that they fulfill the requirements of valid environmental legislation. There are no legal proceedings pending against the Company involving environmental matters.

Air, water and solid waste – The Company's obligations with regards to air, water and solid waste pollution are set by the Slovak legislation. In 2006, the environmental expenses totaled approximately EUR 7 million (2005: EUR 9 million).

Carbon dioxide (CO_2) emissions – In April 2004, U. S. Steel Košice, s.r.o. submitted a request to the Ministry of Environment of Slovak Republic to obtain quotas of CO_2 emissions for U. S. Steel's plant in Košice. This request related to requirements imposed by the European Commission (EC), which is allocating CO_2 emission limits for member countries and that is responsible for implementation of Global Agreement of UN on Climate Changes as stated in the Kyoto Agreement. The process resulted in creation of European emission trading scheme for CO_2.

Slovakia was required to submit to the EC for approval a national allocation plan (NAP) specifying its total CO_2 allowances in tons of emissions for the period 2005 to 2007. Slovakia submitted its proposal of the NAP to the EC in June 2004. Slovakia and the EC have agreed on a NAP that reduces Slovakia's original proposed CO_2 allocation by approximately 14 percent. Subseqently, the EC approved the NAP as reduced on 20 October 2004.

On 20 December 2004, U. S. Steel Košice, s.r.o. filed an application for annulment in the Court of First Instance of the European Communities (CFI) contesting the EC's reduction of Slovakia's original proposed NAP.

In February 2005, the Ministry of Environment of Slovak Republic allocated emission quotas to individual entities. The Company received CO_2 emission quotas totaling 28.6 million tons for the period from 2005 to 2007.

In June 2006, Slovakia finished preparation of its proposed national allocation plan for the second CO_2 trading period, 2008-2012 (NAP II). On 29 November 2006, the EC issued a decision that Slovakia would be granted 25 percent fewer CO_2 allowances than were requested in Slovakia's NAP II, for the allocation period 2008 through 2012. In February 2007, both Slovakia and USSK have filed legal actions in the Court of First Instance of the European Communities against EC to challenge this decision. The Ministry of Environment of Slovak Republic has not yet allocated Slovakia's CO_2 allowances to companies within Slovakia for the NAP II period. The potential financial and/or operational impacts of NAP II are not currently determinable.

(All amounts are in thousands of EUR, unless otherwise indicated)

Asbestos – The Company undertakes a long term process of asbestos removal. The project of approximately EUR 6 million is expected to be completed by 2010 with annual expenditures of EUR 1 million. The annual budgeted costs are presented to the municipal health authorities. The current legislation permits usage of asbestos in existing facilities until the time of disposal and requires asbestos removal from new products since 2005. The penalties, if any, for not meeting such a deadline are not material. The Company makes a decision, whether the cost should be capitalized or expensed at the time of occurrence. There was no amount capitalized in 2006 and 2005. No provision was recorded by the Company for asbestos removal as there is no obligation for such removal in current valid legislation.

Note 31 Related Party Transactions

The balance sheet includes the following amounts resulting from transactions with related parties:

	Receivables		Payables	
	31 December 2006	**31 December 2005**	**31 December 2006**	**31 December 2005**
U. S. Steel Kosice (UK) Ltd (1)	**5,596**	5,418	**11**	-
United States Steel Corporation (3)	**95**	7,489	**355**	34,719
USS International Services, LLC (6)	**168**	126	**951**	1,065
U. S. Steel Global Holdings I B.V. (2)	**-**	228,222	**23,287**	3,962
U. S. Steel Serbia d.o.o. (4)	**99,612**	89,720	**51**	16,391
U. S. Steel Serbia B.V. IV (5)	**-**	105,408	**-**	-
Subsidiaries (9)	**2,574**	10,148	**10,967**	9,887
Total	**108,045**	**446,531**	**35,622**	**66,024**

(1) Associate
(2) Parent company
(3) Ultimate parent company
(4, 5, 6) Companies under common control of USS Corporation
(9) All subsidiaries under control of the Company (Note 8)

As of 31 December 2006, provision for impairment against receivables due from subsidiaries and U. S. Steel Serbia, d.o.o. was recognized totaling EUR 1,957 thousand and EUR 3,143 thousand, respectively (31 December 2005: EUR 2,009 thousand and EUR 765 thousand).

The following amounts of revenues and expenses resulting from transactions with related parties were recorded in the Company's income statements:

	Revenues		Expenses	
	2006	**2005**	**2006**	**2005**
U. S. Steel Kosice (UK) Ltd (1)	**38,626**	40,846	**15**	430
UEC Technologies, LLC (7)	**-**	-	**-**	181
United States Steel Corporation (3)	**668**	7,007	**47,668**	43,454
USS International Services, LLC (6)	**3,988**	-	**12,005**	13,080
U. S. Steel Global Holdings I B.V. (2)	**-**	356	**-**	-
U. S. Steel Serbia d.o.o. (4)	**361,595**	319,117	**3,526**	81,672
U. S. Steel Serbia B.V. IV (5)	**-**	3,414	**-**	-
U. S. Steel Europe B.V. (8)	**-**	-	**-**	36,191
Subsidiaries (9)	**4,094**	34,654	**67,445**	58,975
Total	**408,971**	**405,394**	**130,659**	**233,983**

(1) Associate
(2) Parent company
(3) Ultimate parent company
(4, 6, 7, 8) Companies under common control of USS Corporation

(All amounts are in thousands of EUR, unless otherwise indicated)

(9) All subsidiaries under control of the Company (Note 8)

(1) Receivables and revenues arise from sales of steel products to the associated company U. S. Steel Kosice (UK) Ltd.

(2) The balances receivable from U. S. Steel Global Holdings I B.V. included short-term loan provided by U. S. Steel Košice, s.r.o. (Note 11).

(4) Intercompany receivables to U. S. Steel Serbia d.o.o. represent shipments of raw materials including freight costs, payables to U. S. Steel Serbia d.o.o. relate mainly to the finished goods supplies to the Company's foreign affiliates.

(5) The receivables from U.S. Steel Serbia B.V. IV represented long-term loan provided by U. S. Steel Košice, s.r.o. (Note 11).

(6) USS International Services provides managerial services to U. S. Steel Košice, s.r.o.

(9) Transactions with subsidiaries of U. S. Steel Košice, s.r.o. include mainly sales of steel products and various services provided to U. S. Steel Košice, s.r.o.

Emoluments of the statutory representatives

(a) Slovak and foreign statutory representatives did not receive any cash or non-cash benefits in 2006 and 2005 that arise from their positions of statutory representatives. They are employed and paid only based on their employment contracts with the Company and USS International Services, LLC, respectively. Compensations of foreign statutory representatives of the Company are included in the charges paid to USS International Services, LLC shown above. Compensations of Slovak statutory representatives are included in the salaries and other employee benefits of Company's key management (Note 25) employees as shown in the following table:

	2006	**2005**
Wages and salaries	**6,045**	6,502
Profit sharing expense	**317**	360
Social security – Defined contribution plan	**1,061**	1,123
Total	**7,423**	**7,985**

(b) Shares or share options of U. S. Steel Corporation granted to the Company's executives do not represent a material amount in these financial statements.

(c) No loans or advance payments were provided to statutory representatives by the Company.

Note 32 Subsequent Events

Subsidiaries

The Company has increased its share in following companies:

- ELEKTROSERVIS VN a VVN, a.s. to 100% as of 9 January 2007 by purchase of shares from minority shareholders,
- ENERGOSERVIS a.s. Košice to 100% as of 24 April 2007 by purchase of shares from minority shareholders.

In March 2007, the carrying value of investment in VULKMONT, a.s. Košice was increased by EUR 310 thousand by contribution of property, plant and equipment by the Company.

VOZMULT a.s. Košice v likvidácii dissolved on 9 June 2007.

Other

Dividends totaling EUR 525 million were proposed as of 15 June 2007.

The transformation process of the supplementary pension insurance company STABILITA, d.d.s, a.s. was completed on 1 April 2007. During this process, the Company became an owner of 18.59% share in December 2006 without material financial effect on the Company.

The agreement with Slovenské investičné družstvo (Note 30) expired in January 2007.

After 31 December 2006, no other significant events have occurred that would require recognition or disclosure in the 2006 financial statements.